Draft of Deficit Reduction Proposals Released

By Editor Test *Thu, Nov 11, 2010*

The deficit committee's modest proposal to reconsider all of the $1.1 trillion worth of annual "tax expenditures"--including the tax deferral benefit that underlies the retirement industry--worries Brian Graff, CEO of ASPPA.

On Wednesday, the chairmen of the Obama administration's bi-partisan National Commission on Fiscal Responsibility and Reform released a PowerPoint draft of their recommendations for reducing the annual federal budget deficit, now over $1 trillion as a result of spending to mitigate the effects of the financial crisis.

The draft proposes a wide range of cuts throughout the federal budget, but makes a point of strengthening Social Security without privatizing it and suggests simplifying the IRS code to three tax brackets with a maximum marginal income tax rate of 35% and a corporate tax rate of 26%.

But the commission's modest proposal to question all $1.1 trillion worth of annual "tax expenditures," including tax deferral in retirement plans, has some worried.

"We are deeply concerned that recommendations from the draft report issued today from the chairs of the Deficit Reduction Commission would eliminate tax incentives for retirement savings and negatively impact the ability of working Americans to effectively prepare for retirement," wrote Brian Graff, CEO of the American Society of Pension Professionals and Actuaries, in a release.

"As drafted, one of the options listed in the proposal would eliminate the tax incentive for employers to offer retirement plans to their employees—which ultimately hits low and moderate income workers the hardest. Data prepared by the Employee Benefit Research Institute (EBRI) suggests that only 5% of workers save for retirement on their own, without the benefit of an employer sponsored plan. By contrast, 70% of moderate to low income workers earning between $30,000 and $50,000 participate in employer sponsored retirement plans when they are offered," the release continued.

"The proposed "Zero Option Plan" would decimate the savings rate by eliminating tax incentives for contributing to employer-sponsored retirement plans, such as 401(k) plans, likely triggering mass terminations of company retirement plans—directly impacting a worker's ability to save for retirement," Graff said.

The plan reduces the budget deficit to "sustainable levels" by 2015 but doesn't predict a balanced federal budget until 2037—when the youngest boomers will have just begun taking required minimum distributions.

Social Security reform is covered on pages 42 through 50 of the draft proposal. The recommendations include preventing the 22% across-the-board benefit cuts anticipated in 2037, making the benefit formula more progressive so that high-income recipients receive relatively less, taxing 90% of covered earnings by 2050, indexing the retirement age to longevity gains, dampening COLAs and many other specific optional measures.

The draft proposal also includes recommendations to:

- Cut defense spending by $100 billion in 2015, with savings to come from overhead reduction, overseas base closings, and reductions in defense contracting.
- Freeze federal non-defense pay for three years.
- Reduce the federal workforce by 10% and eliminate 250,000 non-defense contracting jobs.
- Eliminate all $1.1 trillion in “tax expenditures,” i.e. subsidies, and reinstate them on a case-by-case basis.
- Limit mortgage deduction to primary residences, cap at $500,000 mortgages and eliminate tax deduction for home equity loans.
- Cap the federal share of Medicaid payments for long-term care.