
Obama Announces Workplace Savings Initiatives

By Editor Test *Wed, Sep 9, 2009*

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In an announcement last weekend, President Barack Obama told Americans, "If you work hard your whole life, you ought to have every opportunity to retire with dignity and financial security. And as a nation we ought to do all we can to ensure that folks have sensible, affordable options to save for retirement."

To that end, the president and Treasury Secretary Tim Geithner announced four enhancements to the administration's two existing retirement savings proposals: automatic enrollment in workplace IRAs for the 78 million workers without retirement plans and the \$500 Savers Credit. In its latest move, the administration said it would:

Expand automatic enrollment in 401(k) and SIMPLE-IRA plans. By issuing pre-approved automatic enrollment language, the IRS will allow 401(k) plan sponsors to adopt automatic enrollment more quickly, without case-by-case approval by the IRS. Workers could dedicate part of their pay raises to savings or agree to save a higher percentage of their pay every year, while remaining free to stop the increases or opt out.

Under automatic 401(k) plans, employers contribute a small percentage of each paycheck into workers' retirement accounts. Employees decide whether and how much to save. Employers can match employee contributions if they wish. Automatic enrollment has been shown to boost participation in retirement plans, especially by low-income and minority workers.

Treasury and IRS will also help interested employers automatically enroll employees in SIMPLE-IRA plans so long as employees are free to opt out. An estimated 3 to 4 million SIMPLE-IRA accounts exist, but workers are not automatically enrolled. The SIMPLE-IRA combines elements of 401(k) plans and IRAs for small businesses.

Help families save all or part of their tax refunds. Beginning in early 2010, taxpayers can use their tax refunds to purchase U.S. savings bonds simply by checking a box on their tax return. The savings bonds would be mailed to the taxpayer. Taxpayers can purchase bonds in their own names beginning in 2010 and to add co-owners such as children or grandchildren beginning in 2011. Every year, more than 100 million U.S. families receive more than \$200 billion in federal income tax refunds.

Enable workers to convert unused vacation or leave to savings. Treasury and the IRS issued two rulings today describing how employers can allow their employees to contribute the value of unused vacation and leave to their 401(k) plan. The rulings also allow employers to contribute these amounts to employees' 401(k) or other plans.

Communicate rollover options in plain language. Treasury and the IRS issued a plain-English road map for rollovers to help workers keep their savings in tax-favored retirement plans or IRAs until they retire, rather than withdraw cash earlier, subject to tax penalties. The road map explains how to roll over plan balances, the key decisions that employees must make, and the tax consequences of those decisions. In addition, the IRS has created new user-friendly web site materials to help employers select an appropriate retirement plan and to help employees understand the benefits of saving.

The Treasury and IRS rulings and materials can be found at irs.gov/retirement.

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