INSURANCE TASK FORCE

Retirement Security: SECURE Act Update

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Paul Richman
Chief Government & Political Affairs Officer
Insured Retirement Institute
THE INSURED RETIREMENT INSTITUTE

- Represents the entire supply chain of insured retirement strategies.
- Members include major insurers, asset managers, broker-dealers/distributors, banks, solution providers who:
  - Account for more than 95% of annuity assets in the United States; and
  - Are the top 10 distributors of annuities ranked by assets under management.
- Advocates for sustainable retirement solutions Americans need to help achieve a secure and dignified retirement.
THE LOOMING RETIREMENT CRISIS IN AMERICA

- Every day between now and the year 2030, 10,000 people will reach age 65.
- Many of these retirees will live 20-30 years or longer in retirement.
- Increased risk of outliving retirement assets because of longer lifespans.
  - For a married couple age 66, there is a 66 percent chance of at least one spouse living to age 90, and 33 percent chance of at least one spouse living to 92.
- 45% of Baby Boomers and 40% of GenXer’s have NOTHING saved for their retirement.
- 4.8 million employers DO NOT provide retirement plans.
- 28 million full-time employees DO NOT have access to a workplace retirement plan.
- 15 million part-time employees DO NOT have access to a workplace retirement plan.
WHAT IS CONGRESS DOING TO ADDRESS THE RETIREMENT SECURITY CRISIS?

- **Social Security 2100 Act (H.R.960/S.269)**
  - Sponsored by Representative John Larson (D-CT) with 210 co-sponsors and Senator Richard Blumenthal (D-CT).
  - Expected to be marked-up by the House Ways and Means Committee – September 2019.

- **Rehabilitation for Multiemployer Pensions Act of 2019 (H.R.397)**
  - Sponsored by Representatives Richard Neal (D-MA), Peter King (R-NY), Bobby Scott (D-VA), Don Young (R-AK), Debbie Dingell (D-MI), Chris Smith (R-NJ), Donald Norcross (D-NJ), John Kaito (R-NY), Marcy Kaptur (D-OH) and Jeff Fortenberry (R-NE) with 209 co-sponsors.
  - Passed in House by a vote: 264 - 169 on July 24, 2019.

  - Sponsored by Representatives Richard Neal (D-MA), Kevin Brady (R-TX), Ron Kind (D-WI) and Mike Kelly (R-PA) with 58 co-sponsors.
  - Passed in House by a vote 417-3 on May 23, 2019.
THE SECURE ACT

- Comprised of 28 measures – all which go a long way to expand retirement savings and income prospects for millions of American workers.

- Fully paid for by revenue generating provisions to offset the costs created by the tax deferrals of the other retirement savings measures in the bill.

- Common-sense measures to help Americans overcome the obstacles they now face in saving for their retirement by:
  - Expanding and preserving opportunities to save for retirement;
  - Increasing access to lifetime income products;
  - Helping savers make more-informed decisions about their finances for retirement;
  - Enhancing features of workplace retirement plans; and
  - Addressing the increased risk of outliving retirement assets faced by savers because of longer lifespans.
EXPANDING AND PRESERVING OPPORTUNITIES TO SAVE FOR RETIREMENT

“It’s time to get serious about our retirement fund. You collect all of our returnable bottles and I’ll look for loose change in the sofa!”
EXPANDING AND PRESERVING OPPORTUNITIES TO SAVE FOR RETIREMENT

- **Open Multiple Employer Plans (MEPs)**
  - Removes barriers on the types of employers that can band together in a MEP (the common bond requirement).
  - Provides protections to employers who participate in an open MEP and their employees from any negative consequences caused by the acts or omissions of other employers (the one bad apple rule).
  - Create 700,000 new retirement accounts nationwide.

- **Part Time Workers**
  - New requirement established for employers maintaining a 401(k) plan.
  - Must provide their part-time workers who have either completed one year of service (with the 1,000-hour rule) or three consecutive years of service where the employee completes at least 500 hours of service.
  - Requirement applies except in cases of collectively bargained plans.
  - Estimated will provide the over 15-million part-time workers who now don’t have access to a workplace retirement plan with the opportunity to save for retirement.
EXPANDING AND PRESERVING OPPORTUNITIES TO SAVE FOR RETIREMENT

- **Small Employer Pension Plan Start-Up Cost Tax Credit**
  - Increases current tax credit by changing the flat dollar amount limit to the greater of (1) $500 or (2) the lesser of (a) $250 multiplied by the number of non-highly compensated employees of the eligible employer who are eligible to participate in the plan or (b) $5,000.
  - Credit applies for up to three years.
  - Makes it more affordable and provides more incentive in the form of a tax credit for small businesses to set up retirement plans.

- **IRA Contribution Age Limit**
  - Current law prohibits making contributions to a traditional IRA once one has attained the age or 70 ½.
  - Repeals prohibition.
  - Recognizes that as Americans live longer, an increasing number continue employment beyond traditional retirement age.
  - Allows individuals who continue to work regardless of age, to continue to accumulate tax deferred retirement savings.
EXPANDING AND PRESERVING OPPORTUNITIES
TO SAVE FOR RETIREMENT

- **Home Health Care Workers**
  - Removes current law prohibition to allow home healthcare workers to contribute to a defined contribution plan or IRA.
  - Provides that tax-exempt difficulty of care payments be treated as compensation for purposes of calculating the contribution limits to defined contribution plans and IRAs.
  - Will permit home healthcare workers who do not have taxable income because of the way they are compensated to save for retirement.

- **Community Newspapers Pension Funding**
  - Provides pension funding relief for family-owned, non-publicly traded independent community newspapers.
  - Increases the interest rate to calculate those funding obligations to 8%.
  - Provides for a longer amortization period increasing from 7 years to 30 years.
  - Will reduce the annual amount struggling community newspaper employers would be required to contribute to their pension plan.
“Where is that retirement income stream I keep hearing about?”
INCREASING ACCESS TO LIFETIME INCOME PRODUCTS

- **Portability of Lifetime Income Options**
  - Provides for the portability of lifetime income products.
  - Amends the IRS Code to prevent employees who invest in lifetime income options through an employment-based retirement plan from losing the guarantees of their investments if their employer changes recordkeepers.
  - Ensures workers are not harmed if their employer decides to change record keepers, preserve their lifetime income investments and avoid surrender charges and fees.

- **Fiduciary Safe Harbor for Selection of Lifetime Income Provider**
  - Affords an optional safe harbor to plan sponsors satisfying their fiduciary responsibility of prudence with respect to the selection of an annuity for inclusion in their workplace retirement plan menus.
  - Protects plans sponsors from liability for any losses that may result to the participant or beneficiary due to an insurer’s inability in the future to satisfy its financial obligations under the terms of the annuity.
  - Provides certainty for plan sponsors in the selection of lifetime income providers by removing ambiguity about the applicable fiduciary standard.
  - Eliminates a roadblock for plan sponsors who want to offer their workers a lifetime income benefit options under a defined contribution plan.
HELPING SAVERS MAKE MORE-INFORMED DECISIONS ABOUT THEIR FINANCES FOR RETIREMENT

- **Lifetime Income Disclosure Statements**
  - Requires an illustration to be provided annually on a defined contribution plan participant’s benefit statement to show the monthly payments the participant would receive if the total account balance were used to provide lifetime income streams.
  - Directs the Secretary of Labor to develop a model disclosure.
  - Provides useful information to plan participants about what their accumulated contributions would produce as a monthly stream of income during their retirement years.
  - More than 90 percent of workers want retirement income estimates and would find them helpful.
  - More than 75 percent of workers said they would increase their savings level after seeing these estimates.

“I do have a diversified retirement plan: 30% hopes, 30% wishes, 40% prayers.”
ENHANCING FEATURES OF WORKPLACE RETIREMENT PLANS

“Yes, we have an early retirement program. We withhold two dollars from each paycheck to buy you a lottery ticket.”
ENHANCING FEATURES OF WORKPLACE RETIREMENT PLANS

Auto Enrollment Safe Harbor Cap

- Current law permits employers to automatically enroll employees in 401(k) plans at a default rate at 3 percent of pay and the auto escalation rate is capped at 10 percent.
- Increases the cap from 10 to 15 percent of employee pay under an automatic enrollment safe harbor plan.
- Workers across all income brackets are statistically more likely to participate when their employers have auto-enrollment but need higher savings thresholds to reach their retirement savings goals.
- Removing the auto enrollment safe harbor cap and increasing the cap requiring automatic escalation of employee deferrals to up to 15 percent of employee pay will create more opportunities for Americans to save more for their retirement.

Small Employer Automatic Enrollment Credit

- Creates a new tax credit of up to $500 per year to employers to defray startup costs for new section 401(k) plans and SIMPLE IRA plans that include automatic enrollment.
- Credit is in addition to the plan start-up credit allowed under present law and would be available for three years and would also be available to employers that convert an existing plan to an automatic enrollment design.
ENHANCING FEATURES OF WORKPLACE RETIREMENT PLANS

- **401 K Safe Harbor Simplification**
  - Changes the nonelective contribution 401(k) safe harbor by eliminating notice requirement while maintaining the requirement to allow employees to make or change an election at least once per year.
  - Provides greater flexibility, improves employee protection and facilitates plan adoption.

- **Treatment of Graduate Student Fellowship and Stipend Payments**
  - Allows for stipends and non-tuition fellowship payments received by graduate and postdoctoral students to be considered as compensation and includible income for the purposes of IRA contributions.
  - Removes an obstacle graduate and postdoctoral students face as they seek to begin saving for retirement and accumulate tax-favored retirement savings.
ENHANCING FEATURES OF WORKPLACE RETIREMENT PLANS

- **Retirement Account Withdrawals for Birth or Adoption of Child**
  - Allows an individual to make penalty free withdrawal of up to $5000 to pay for expenses associated with the birth or adoption of a new child.
  - Withdrawal must be made within 1-year of birth or adoption.

- **Combined Annual Reports for Group of Plan**
  - Directs the IRS and DOL to effectuate the filing of a consolidated Form 5500 for similar plans.
  - Plans eligible for consolidated filing must be defined contribution plans, with the same trustee, the same named fiduciary (or named fiduciaries) under ERISA, and the same administrator, using the same plan year, and providing the same investments or investment options to participants and beneficiaries.
  - Reduce aggregate administrative costs, making it easier for small employers to sponsor a retirement plan.
ENHANCING FEATURES OF WORKPLACE RETIREMENT PLANS

- Closed Defined Benefit Plans
  - Modifies nondiscrimination rules to provide relief for closed to new participant defined benefit plans.
  - Permits existing participants to continue to accrue benefits and protects benefits for older, longer service employees from plan freezes.
  - Will ensure approximately 250,000 workers from losing future retirement benefits.

- Church Controlled Retirement Plans
  - Clarifies that individuals covered by retirement plans maintained by church-controlled organizations include:
    - Duly ordained, commissioned, or licensed ministers, regardless of the source of compensation;
    - Employees of a tax-exempt organization, controlled by or associated with a church or a convention or association of churches; and
    - Certain employees after separation from service with a church, a convention or association of churches, or an organization.
  - Preserves retirement plan options for millions of clergy and lay workers employed by religiously affiliated organizations and institutions such as schools, nursing homes and social service providers so they can continue to participate in the retirement plans offered at their workplace.
ENHANCING FEATURES OF WORKPLACE RETIREMENT PLANS

- Volunteer Firefighters and Emergency Medical Responders
  - Reinstates for one year the exclusions for qualified State or local tax benefits and qualified reimbursement payments provided to members of qualified volunteer firefighter and emergency response organizations.
  - Increases the exclusion for qualified reimbursement payments from $30 to $50 for each month during which a volunteer performs services.

- Section 529 Plans
  - Expands 529 education savings accounts to cover costs associated with:
    - Registered apprenticeships; and
    - Up to $10,000 of qualified student loan repayments (including those for siblings).
ADDRESSING THE INCREASED RISK OF OUTLIVING RETIREMENT ASSETS

- Required Mandatory Minimum Distributions (RMDs)
  - Current RMD age of 70 first applied in the retirement plan context in 1962.
  - Increases the required minimum distribution age from 70 1/2 to 72.
  - Change reflects longer life expectancies to help address the increased risk many Americans are facing of outliving retirement assets because of longer lifespans.
  - Ensure that individuals spend their retirement savings during their lifetime and not use their retirement plans for estate planning purposes to transfer wealth to beneficiaries.

“I have 1,872 Facebook friends, so I figure at least ONE will be willing to support me in my old age!”
OUTLOOK FOR ENACTMENT OF THE SECURE ACT

...A new poll says we're the worst Congress ever!

"The do-nuthin' Congress"...

But we didn't just do nuthin'!

We did a whole lotta nuthin'!!

Well, it's sumthin'...
OUTLOOK FOR ENACTMENT OF THE SECURE ACT

- Overwhelming bi-partisan vote in the House and very strong bi-partisan support in the Senate.
- Stalled in the Senate because of 3 Senators who have objected to passing the bill by unanimous consent for various reasons unrelated to any substantive concern about the retirement security provisions.
- White House has previously indicated they support enactment of the bill and signaled the President will sign it.
- Optimistic the Senate will act on the bill as part of the appropriations process that will take place when Congress returns in September.
- Next opportunity - attach to an end-of-year package Congress may consider on other tax related issues.
QUESTIONS?
CONTACT INFORMATION

Paul J. Richman
Chief Government and Political Affairs Officer
Insured Retirement Institute
1100 Vermont Avenue, 10th Floor
Washington, DC 20005
(202) 469-3004
prichman@irionline.org