JANUARY 27, 2014

AGENDA ITEM 5
INFORMATION ITEM

SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

Legislative Update

Presenter
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Background
The purpose of this agenda item is to provide the Board with a summary of state and federal legislation aimed at addressing the lack of access to retirement plans.

State

Indiana
Indiana Senate Bill 66, if enacted, would establish a state-assisted retirement plan for the purposes of encouraging Indiana residents to increase their rate of savings and to build their retirement assets. Only employers that do not currently offer a retirement plan to its employees would be eligible to participate in the plan. An employer's enrollment into the plan would be purely voluntary. The plan would be available to an employee of a participating employer or someone who is self-employed. Employers would have the option to contribute to their employees' accounts, but would not be required to do so. During the first year of participation in the plan, a participant would become eligible for a one-time tax credit up to $250.

The bill would establish a seven member Indiana Retirement Savings Board to serve as trustees of the retirement trust. The board membership would be comprised of the treasurer of the state, the director of the office of management and budget, and five members appointed by the governor who have knowledge, skill, and experience in professional financial accounting, business, economics, finance, or investments. The treasurer would serve as chair of the board, with the director of the office of management and budget serving as vice-chair.

The bill would grant to the board the authority to adopt a plan document outlining a state-assisted retirement plan, enter into contracts with potential plan administrators, and request from the Internal Revenue Service any rulings or determination letters that the board may require in order to determine the legality of the plan.

The plan was first read January 7, 2014, was passed by the Committee on Pensions and Labor January 9, 2014, and referred to the Tax and Fiscal Policy Committee.

Ohio
Ohio State Senator Eric Kearney proposed Senate Bill 199, which would create a statewide program for private sector workers who do not have access to an employer-sponsored retirement savings plan. The Ohio Secure Choice Retirement Savings Program would require certain Ohio employers to offer a 3 percent payroll deduction as a contribution to an individual retirement account (IRA). The bill, introduced in early October, 2013, has not yet been voted upon or brought before committee.

The bill would establish a 7-member board consisting of the treasurer of the state, who would act as chairperson; the director of budget and management; the auditor of the state; a member representing small business, appointed by the minority leader of the senate; a member representing the public, appointed by the speaker of the house of representatives; a member with retirement savings and investment expertise, appointed by the president of the senate; and a member representing employees, appointed by the minority leader of the house of representatives.

Louisiana
Louisiana State Senator Troy Brown announced his intentions to propose legislation aimed at increasing access to retirement plans in September, 2013. He announced his intention to meet with business and employee groups to discuss the plan.

Federal

U.S. Department of the Treasury – "R-Bonds"
J. Mark Iwry, Senior Advisor to the Secretary of the Treasury and Deputy Assistant Secretary for Retirement and Health Policy at the U.S. Department of the Treasury, has discussed a plan that would be aimed at people who lack access to payroll-deducted retirement plans. Participants in the plan would make automatic payroll-deducted contributions towards the purchase of an "R-Bond", which would have the tax characteristics of an IRA, if their employers do not provide a retirement plan. The bonds would be used as a kind of bridge towards enrollment in a retirement plan such as an IRA, or into something like a Target Date Fund.

The U.S. Department of the Treasury has proposed variations of automatic IRA plans since 2009. The creation of an R-Bond could serve as a first step towards the expansion of retirement access, serving as a default investment option for a hypothetical automatic retirement program. The automatic IRA plan proposed by U.S. Congressman Richard Neal would have used the R-Bonds as the default investment option.

Some ideas have been proposed to increase retirement participation, using the R-Bonds as a mechanism. For example, enrollment in and contributions to the plan could be an option for people completing their tax return.

The plan could be implemented without congressional authority.

SAFE Retirement Act – Orrin Hatch, U.S. Senator (Utah)
While Title I of Senator Hatch's bill would address and local government pensions, Title II of the bill would establish a "Starter 401(k)", a retirement savings plan that would be available to employers that do not already sponsor a 401(k) plan. The bill would amend the Internal Revenue Code to allow participants to save up to $8,000 a year, more than currently allowed for a traditional IRA; increase the maximum small employer pension plan tax credit from $500 to $5,000; introduce a new automatic enrollment 401(k) safe harbor option, featuring a 6% (rather than a 3%) initial deferral rate; and eliminate the 10% limit on automatic-escalation. Employers would be able to upgrade the "Starter 401(k)" to the Safe Harbor 401(k) plan, giving them the ability to contribute to employee accounts. Participants would have the option to use up to 25% of their account balance to purchase an annuity that begins payments as late as age 85.

The bill was introduced July 9, 2013 and was subsequently referred to the Committee on Finance.