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President Obama Supports Auto-IRA Proposals

"Offer every American access to an automatic IRA on the job, so they can save at work just like everyone in this chamber can." – President Obama, State of the Union Address, January 28, 2014

- The primary factor that determines whether or not families save for retirement is if there is a retirement plan available at the workplace. There are differing estimates of the percentage of workers lacking access to retirement benefits, but what is clear is that tens of millions of workers across the country do not have a workplace retirement savings plan. This makes it challenging for those individuals to save for retirement.

- President Obama addresses this issue by proposing in his budget to Congress "automatic IRA" arrangements that would require employers that do not sponsor a qualified retirement plan (except for very small employers) to automatically enroll workers in a payroll deduction IRA program. This "automatic IRA" proposal would help employees, who otherwise would not have access to a retirement plan to work, to accumulate funds for retirement through payroll deduction without unduly burdening the employer. The employer would receive a tax credit to pay for the expenses of setting up this arrangement.

- President Obama supports the concept of "automatic IRAs", because payroll deduction retirement savings works, and it should be more widely available to rank and file employees at the workplace. According to the Employee Benefit Research Institute, workers making between $30,000 and $50,000 are 15 times more likely to save for retirement through a retirement savings plan in the workplace than to open and save through an IRA account on their own.

- The United States Government Accountability Office (GAO) agrees that "automatic IRAs" would increase retirement savings. An August 2013 GAO report on "automatic IRAs" found that 36% of households could see an increase in their retirement savings if "automatic IRAs" were implemented, with the lowest earnings quartile benefiting the most, as the GAO calculated a 66% increase in savings among that group.

- Because contribution limits for IRAs are less than for employer-sponsored 401(k) plans, "automatic IRAs" are expected to expand the availability of retirement savings, not replace current 401(k) or defined benefit plans. In fact, once employers and employees get used to payroll withholding for retirement savings through "automatic IRAs", employers may be more comfortable moving up to a 401(k) or defined benefit arrangement.

- Because of Congress' failure to address this issue at the federal level, a number of state legislatures, including Illinois, are considering following President Obama's lead and adopting the "automatic IRA" approach for their citizens at the state level. Expanding access to workplace savings is the key to improving the system. The Land of Lincoln can take a big step forward by adopting the requirement for employers to offer a retirement plan, like "automatic IRAs", for employees.

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