Analysis of the Automatic IRA Act of 2007: Extending the Benefits of Automatic Saving beyond 401(k)s

The Automatic IRA Act of 2007 (S. 1141) was introduced in the 110th Congress by Senators Jeff Bingaman (D-NM) and Gordon H. Smith (R-OR). Identical legislation was introduced in the House (H.R. 2167) by Representatives Richard Neal (D-MA) and Phil English (R-PA).

Expand Automatic Saving Coverage – Policy Objectives	Automatic IRA Act of 2007	RSP Evaluation
Promote retirement saving and security among middle- and lower-income employees:		
Expand coverage to a majority of the 75 million Americans without an employer-based retirement plan. Background: Nearly half of our workforce has no effective way to save for retirement at work.	Yes The bill requires that an "Auto IRA" be offered to employees of businesses that have more than 10 employees, have been in business more than 2 years and do not currently offer a qualified retirement plan, such as a 401(k) or a profit-sharing plan.	In much the same way that millions of employees have their pay directly deposited into their bank or credit union account, most employees not currently offered a retirement saving plan would be allowed to have their employer send a portion of each paycheck to an IRA.
Harness the power of inertia by drawing on lessons from the successful and increasingly popular automatic 401(k). Background: Through the use of sensible options in the Automatic 401(k), participation is maximized, saving is increased, and assets are invested prudently.	Yes The bill provides for employers to use an automatic contribution arrangement. Employees would have an Auto IRA unless they chose not to participate. Employers not using automatic enrollment would be required to obtain an explicit yes or no decision from all employees so no employee is left behind by default.	Requiring an explicit answer picks up many who would otherwise fail to participate due to inertia, inability to decide on investments or level of contribution, or procrastination. Evidence from the 401(k) universe strongly suggests that high levels of participation tend to result from both automatic enrollment and obtaining an explicit answer.
Provide a low-cost, sensible automatic investment choice. Background: It is especially important to have low cost options so that fees and expenses do not erode the growth of retirement savings. Sensible automatic investments increase saving among less financially savvy savers who might avoid participating because of the investment decisions involved.	Yes The bill provides that, unless an employee opts for an alternative investment, Auto IRA contributions would be invested in a low-cost investment fund as defined by Department of Labor regulations. Auto IRAs would be provided by existing financial institutions and can be chosen by the employer or directly by the employee. As a fallback, for individuals and employers who prefer not to choose a specific IRA, ready-made, low-cost accounts with pre-set automatic investments managed by the financial services industry would be available.	Efficiencies that result from collective investment pools, greater uniformity (including a single type of automatic investment fund), electronic communication and fund transfers, and a simplified, no-frills account structure should reduce the cost of administering small accounts.

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Make retirement saving easier for the self-employed and other members of the workforce who are not traditional employees. Background: Working Americans with little or no connection to an employer – because they are seasonal employees, independent contractors, etc. – often do not have an employer-provided retirement plan.	Yes The bill would explicitly facilitate and encourage retirement saving through Auto IRAs by automatic checking account debit arrangements for the self-employed, through voluntary associations, and from direct deposit of income tax refunds.	Automatic checking account debits, like automatic payroll deduction, make saving easier by making it regular and automatic. Direct deposit to an IRA of all or a part of income tax refunds will also make retirement saving easier.

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Benefit employers and recognize their interest in helping their employees save:		
Minimize any cost or trouble for employers. Background: Many employers would like to help their employees save for retirement, but any expansion of coverage should be careful to avoid placing a burden on small business owners.	Yes The bill allows, but does not require, start-up companies (in business less than 2 years) or the smallest businesses (10 or fewer employees) to offer Auto IRAs. The bill also gives employers the option of conveniently forwarding employee contributions through the payroll tax deposit system.	For firms that already offer direct deposit, Auto IRAs should cause no additional cost, even in the short term. Most employers that still process payroll by hand would be exempted because they have 10 or fewer employees. A national web site would offer standardized enrollment forms and education materials, which would make administration easy.
Defray any start-up administrative costs. Background: An existing tax credit reimburses employers for administrative costs up to $500 in each of the first three years of sponsoring a 401k-type retirement savings plan.	Yes The bill gives employers a tax credit of up to $250 in each of the first two years in which they offer Auto IRAs. This credit would be available both to firms required to offer payroll deposit IRAs and those doing so voluntarily.	Because the bill offers a smaller tax credit than the current credit for starting an employer plan such as a 401k, small businesses will be encouraged to "graduate" to such a plan.
Protect and encourage employer-sponsored retirement savings plans. Background: Employer-sponsored plans should be encouraged as employees covered under these plans tend to be better prepared for a secure retirement.	Yes Under the bill, the maximum permitted contributions to Auto IRAs will be the same as any other IRA ($4,000 in 2007 or $5,000 for those age 50 or older). In addition, Auto IRAs would not allow company contributions.	Many small business owners or decision-makers will want to save more than the $4,000 IRA contribution limit. They could contribute up to $10,500 in a SIMPLE plan or $15,500 in a 401(k) plan (more if age 50 or older). This major difference in contribution limits, plus the option to make employer contributions in a 401(k), will encourage firms to adopt or keep 401(k)s in preference to Auto IRAs.

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Use the power of the marketplace and the knowledge and resources of the financial services industry:		
Utilize a market-oriented approach to providing retirement saving and investment options. Background: The financial services industry has a tremendous amount of experience and has historically been quick to create innovative new products to help make saving easier.	Yes Employees and employers would be allowed to send their savings to a financial services provider that offers an Auto IRA that includes a low-cost, diversified automatic investment option. By using IRAs as the saving vehicle, the bill centers around existing private-sector practices. To the extent that fallback accounts are needed for workers who are not served by the financial services industry, the bill requires that investment management, recordkeeping, and other administrative functions be contracted to the private sector, to the maximum extent practicable.	By involving the financial services industry in all forms of the Auto IRA, the bill helps to promote innovation and product development, as well as flexibility to adapt to changes and promote best practices. Conceivably, the fallback Auto IRA investment structure could provide a national platform to promote the payment of lifetime guaranteed income from IRAs (through annuities or longevity insurance). The bill requires a report on this possibility.

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