



Congress Considers Major Retirement Plan Reforms

Rep. George Miller (D-CA),¹ Chairman of the House Committee on Education and Labor (Committee), is considering alternatives to 401(k) plans. At an October 7 hearing,² Chairman Miller raised eyebrows by calling for a reexamination of the tax-exempt status of retirement plans. "We have to start to think about in Congress . . . whether or not we want to continue to invest that \$80 billion [in lost tax revenue] for a policy that's not generating what we now say it should," Mr. Miller said. "For a taxpayer investment of this size, we must ensure that the structure of 401(k)s adequately protects the nest eggs of participating workers."

The Committee listened to several reform proposals at the hearing – including presentations by six witnesses. The most alarming suggestion was proposed by Teresa Ghilarducci,³ a professor of economic-policy analysis at the New School for Social Research. Professor Ghilarducci recommended replacing the tax-exempt status of 401(k) plans with an inflation-adjusted \$600 federal income tax credit and forcing workers to invest 5% of their pay into a government-run retirement account. The Guaranteed Retirement Account (GRA) would invest in special-issue government bonds paying interest of 3% above inflation.⁴ As Professor Ghilarducci explained in a September 26 New York Times Op-Ed piece, the "government would pool the proceeds from all the accounts into a sovereign wealth fund, and get its 3 percent rate of return (probably more) by investing in a diversified portfolio of both safe and risky assets. The government is large enough to handle this risk."⁵

On October 22, the Committee held a follow up field hearing in San Francisco, CA.⁶ FSI member Thomas F. "Tif" Joyce, of Joyce Financial Management, was invited by the Committee to participate in the hearing. Mr. Joyce explained the important role independent financial advisors play in helping investors plan for a safe and secure retirement: "It's important to educate people that market ups and downs are normal, and we emphasize finding out our clients' true risk tolerance before they go through a market decline. Then we encourage them to buy 'on sale,' which is how they learn that you can use risk to your advantage. Our clients

¹ See Rep. Miller's web site at <http://georgemiller.house.gov/>.

² Details about the hearing, including an archived webcast, can be found at <http://edlabor.house.gov/hearings/fc-2008-10-07.shtml>.

³ See http://en.wikipedia.org/wiki/Teresa_Ghilarducci for more information about Professor Ghilarducci.

⁴ See Professor Ghilarducci's testimony before the House Committee on Education and Labor at http://www.house.gov/ed_workforce/testimony/2008-10-07-TeresaGhilarducci.pdf.

⁵ See the Professor Ghilarducci's Op-Ed piece at http://www.nytimes.com/2008/09/27/opinion/27ghilarducci.html?_r=2&scp=1&sq=ghilarducci&st=nyt&oref=slogin.

⁶ Details about the field hearing, including an archived webcast, can be found at <http://edlabor.house.gov/hearings/fc-2008-10-22.shtml>.



are weathering this storm because they have reasonable expectations, age-appropriate diversification, and we continually stay in touch to support them.”⁷

Important Note: Inaccurate Internet rumors have circulated about these hearings. According to FactCheck.org, the source of the rumors was a November 4 *Carolina Journal* report entitled “Dems Target Private Retirement Accounts: Democratic leaders in the U.S. House discuss confiscating 401(k)s, IRAs.” The report claimed that House Democrats were considering a plan to seize investors 401(k) and IRA assets to fund Professor Ghilarducci’s GRA proposal. Chairman Miller responded to these claims by issuing a press release on November 14.⁸ “I do not support ‘abolishing’ 401(k)s, moving these plans, or changing their tax status, plain and simple,” said Miller. “The truth is that Democrats in Congress are working to preserve and strengthen 401(k)s.” It is clear that while Democrats are certainly considering significant reforms, they have not proposed confiscating personal retirement account assets.⁹

While Chairman Miller has yet to offer support for any particular proposal, including that offered by Professor Ghilarducci, he has proposed reforms to 401(k)s that he believes will preserve and strengthen Americans’ retirement security. For example, he has put forth several recommendations for 401(k)s targeted at:

- Exposing excess fees that Wall Street middle men take from workers accounts,
- Bringing young and low-wage workers into the system at a higher rate through automatic enrollment for employers already offering 401(k)s,
- Ensuring that retirement accounts have diversified investment options with low fees,
- Ensuring workers have access to reliable independent investment advice, and
- Reducing vesting periods and improving portability of 401(k) accounts.¹⁰

These principles were incorporated into the “401(k) Fair Disclosure for Retirement Security Act of 2007” (H.R. 3185) which was introduced by Congressman Miller on July 26, 2007, but failed to move out of Committee .¹¹

On December 3, FSI President & CEO Dale Brown met with Chairman Miller’s top advisor on retirement security issues. He underscored FSI’s belief that most consumers need advice to help

⁷ See Mr. Joyce’s written testimony at <http://edlabor.house.gov/testimony/2008-10-22-ThomasJoyce.pdf>.

⁸ See the full press release at

http://www.house.gov/apps/list/speech/edlabor_dem/111408WSJResponse.html.

⁹ See the full FactCheck.org report at

http://www.factcheck.org/askfactcheck/are_congressional_democrats_talking_about_confiscating_ira.html.

¹⁰ More details on these principles can be found at <http://edlabor.house.gov/issues/strengthening401ks.shtml>.

¹¹ See the text of the bill at <http://thomas.loc.gov/cgi-bin/query/F?c110:1:./temp/~c110dLDN7m:e1078>.



them make sound investment decisions, particularly as they plan for retirement. He also outlined how independent financial advisors urge middle class clients to take full advantage of the opportunities offered through their employers' 401(k) plans.

"This was the first of what we expect to be many constructive discussions on these important issues," Brown reported. "Given the challenges in the economy and the pain felt by small investors, it is clear that Chairman Miller will focus on retirement security issues in the next Congress."

FSI is fully engaged on these issues, pushing for greater opportunities for Americans to invest for a secure retirement with the advice and support of an independent financial advisor.