

## **U.S. Government's 2012 Budget Proposal Contains Pension Reforms**

On February 14, 2011, President Obama released his fiscal year 2012 Budget Proposal (the Budget) for the nation to Congress and the public. Contained in the 208-page report are several retirement savings related proposals, which are highlighted in the following paragraphs.

### **Highlights for the Pension Benefit Guaranty Corporation (PBGC)**

The Budget proposes to give the PBGC Board the authority to adjust premiums and directs PBGC to take into account the risks that different sponsors pose to their retirees and to PBGC. This will both encourage companies to fully fund their pension benefits and ensure the continued financial soundness of PBGC. In order to ensure that these reforms are undertaken responsibly during challenging economic times the Budget would require two years of study and public comment before any implementation and gradual phasing in of any increases. This proposal is one component of the Administration's ongoing strategy to make the PBGC more accountable and efficient while strengthening the defined benefit pension system for the millions of American workers who rely on it for retirement security. This proposal is estimated to save \$16 billion over the next decade

### **Highlights for the Department of Labor (DOL)**

The Budget safeguards workers' pensions by encouraging companies to fully fund their employees' promised pension benefits and assuring the long-term solvency of the Federal pension insurance system.

The Budget creates new opportunities to save for retirement by establishing a system of automatic workplace pensions and doubling the small employer pension plan start-up credit.

#### Establishes Automatic Workplace Pensions

Currently, 78 million working Americans—roughly half the workforce—lack employer-based retirement plans. The Budget proposes a system of automatic workplace pensions that will expand access to tens of millions of workers who currently lack pensions. Under the proposal, employers who do not currently offer a retirement plan will be required to enroll their employees in a direct-deposit IRA account that is compatible with existing direct-deposit payroll systems. Employees may opt-out if they choose. To minimize costly burdens on small businesses, the smallest firms would be exempt.

#### Doubles the Small Employer Pension Plan Startup Credit

Under current law, small employers are eligible for a tax credit equal to 50 percent (up to a maximum of \$500 a year for three years) of the start-up expenses of establishing or administering a new retirement plan. To make it easier for small employers to offer pensions to their workers in connection with the automatic IRA proposal, the Budget will increase the maximum credit from \$500 a year to \$1,000 per year.

### Increases Employee Benefits Security Administration (EBSA) Budget

While most program budgets are seeing drastic reductions, the budget for the EBSA is increasing, from \$155M 2011 to \$198M in 2012—a 28% increase. Phyllis Borzi, Assistant Secretary of Labor for EBSA commented: “The President's FY 2012 budget provides for increased resources to undertake the full range of our program responsibilities, including in the enforcement area.”

### **Highlights for Social Security**

Based on current forecasts, Social Security can pay full benefits until 2037. The President is committed to making sure that Social Security is solvent and viable for the American people, now and in the future. President Obama is strongly opposed to privatizing Social Security and looks forward to working in a bipartisan way to preserve it for future generations. The President has laid out six principles for reform, which will guide bipartisan talks on strengthening Social Security in the long term.

### Six Principles for Social Security Reform

- Any reform should strengthen Social Security for future generations and restore long-term solvency.
- The Administration will oppose any measures that privatize or weaken the Social Security system.
- While all measures to strengthen solvency should be on the table, the Administration will not accept an approach that slashes benefits for future generations.
- No current beneficiaries should see their basic benefits reduced.
- Reform should strengthen retirement security for the most vulnerable, including low-income seniors.
- Reform should maintain robust disability and survivors' benefits.

A copy of the 2012 Budget Proposal is available through this link:

<http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/budget.pdf>