

Comparison of Guaranteed Retirement Account, Universal 401(k), and Auto-IRA Features

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Feature/Plan	Guaranteed Retirement Account	Universal 401(k)	Auto-IRA
Employee contribution	Employer and employee are each required to contribute 2.5% of pre-tax wages up to the Social Security cap, unless the employer offers an equivalent or better defined-benefit pension plan.	Voluntary contributions up to \$15,500 in 2008 (\$20,500 for workers aged 50 and over) are allowed, as under current law.	Voluntary contributions up to \$5,000 in 2008 (\$6,000 if age 50 or over) as now allowed. Participation boosted via automatic enrollment, other features.
Employer contribution	Employees could contribute additional amounts, after tax.	Contributions allowed/required as under current law. Total contributions limited to the lesser of \$46,000 (in 2008) or the employee's salary.	Employer contributions not permitted, as under current law.
Administration	Employer withholding required. Accounts would be administered by the Social Security Administration.	Employers encouraged to use auto-enrollment. Accounts administered privately as under current law.	Employers with 10 or more workers and without a retirement plan required to offer payroll deduction for Automatic IRAs.
Investment	Funds would be held and invested by the federal Thrift Savings Plan or similar body, and employees would be guaranteed a 3% real rate of return.	Funds must be invested in a broad-based index fund to be eligible for government matching.	Employers would choose an IRA plan, allow employees to choose, or deposit contributions into a standardized, default private account.
Distributions	Account is annuitized at retirement; no pre-retirement withdrawals.	As in current law. Lump-sum withdrawal, rollover to IRA or annuitized at retirement. Limited pre-retirement borrowing.	Penalties for early withdrawal and required distributions at age 70 as under current law.
Subsidies	Every employee receives a \$600 refundable tax credit, offsetting the mandated contribution on the first \$12,000 of wages.	<ul style="list-style-type: none"> - Low-income families receive a 2:1 match on contributions up to \$667. - Middle-income families receive a 1:1 match on contributions up to \$1,000. - All individual retirement savings eligible for a 30% refundable credit. 	<ul style="list-style-type: none"> - Employer credit of up to \$250 for two years, to offset startup costs. - An individual tax deduction allowed as under current law for IRA contributions. Such contributions may also qualify the worker for the Saver's Credit.
Financing	The current tax preferences for IRA and defined contribution (e.g., 401(k)) plans are eliminated. Current plans may continue, but new contributions are not tax-exempt.	<ul style="list-style-type: none"> - Current tax deductions for individual retirement saving are eliminated. - The estate tax is retained with a \$3.5 million per estate (\$7 million per couple) exemption. 	None proposed (but costs are relatively low).
Effect on New Saving	All workers now accumulating less than 5% of wages per year would save more. Workers currently saving more in combined employer/employee contributions to tax-preferred defined contribution plans might save less.	Low and middle-income workers expected to save more. Higher-income workers would be expected to save less in dedicated retirement accounts and might save less overall.	Many workers not currently covered by any employer-sponsored plan or making their own IRA contributions would save more. Automatic enrollment and auto-escalation would increase saving. No one should be induced to save less.

Source: AARP Public Policy Institute summary of plans as proposed by Teresa Ghilarducci, Gene Sperling, David John and Mark Iwry, April 2008.