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I. Washington Update

In recent weeks, Congress has seen several bills introduced which, if enacted, may impact state and local governments and the retirement plans they sponsor.

Retirement Plan Simplification and Enhancement Act of 2013

On May 22, Rep. Richard Neal (D-MA) introduced H.R. 2117, a bill which, as with similar legislation introduced in 2012, is a collection of largely unrelated retirement plan improvement measures.

- The Saver’s Credit tweaked to:
  - Become a refundable credit, expanding the number of eligible individuals
  - Double the credit amount for those who elect to have the credit directly deposited into their retirement account
  - Liberalize the qualifying income levels for eligibility

- Required minimum distributions (RMDs) would not be required of individuals who are over age 70½ if their aggregate IRA and employer plan balances are less than $100,000
• **Non-spouse beneficiaries** would be allowed indirect (60-day) rollovers of inherited assets from employer-sponsored retirement plans into an IRA

• Modifications to the IRS *Employee Plans Compliance Resolution System* (EPCRS) to permit more errors to be corrected via the self-correction program as well as to simplify the Voluntary Correction Program (VCP)

• Requirement that the Government Accountability Office (GAO) study the feasibility and appropriateness of extending *spousal consent requirements* to defined contribution plans

• Requirement that the Department of Labor (DOL) modify its rules pertaining to *Target Date Funds* to permit the use of a benchmark that reflects the funds’ mix of investment classes.

**Automatic IRA Act of 2013**

On May 16, Rep. Neal introduced H.R. 2035, a bill which would require small employers (10 employees or more) to automatically enroll their workers in a payroll deduction IRA (auto IRA), however, employees may then opt out of the plan. Employers would not be required to contribute.

**Student Loan Affordability Act of 2013**

On May 15, Sens. Tom Harkin (D-IA), chair of the Health, Education, Labor, and Pensions (HELP) Committee, and Jack Reed (D-RI) introduced S. 953. The *Student Loan Affordability Act of 2013* would temporarily extend the reduced rate on student loans, which expires on July 1, while Congress works on a long-term solution to the problem.

The bill is fully paid for by closing certain tax loopholes, including accelerating required minimum distributions for certain inherited IRAs, known as “Stretch IRAs”.

Under current law, designated beneficiaries are permitted to extend the distribution period of inherited IRA accounts over the beneficiary’s life expectancy. The Stretch IRA proposal, similar to past proposals, would require beneficiaries to draw down all assets in the IRA within five years, subject to exceptions for individuals who are:

1. the surviving spouse of the IRA owner
2. a child who has not attained the age of majority
3. disabled
4. chronically ill, or
5. not more than 10 years younger than the IRA owner.

In the case of a child who has not attained the age of majority, the five-year rule would apply as of the date the child attains the age of majority.

The Obama Administration included a similar Stretch IRA proposal for the first time in its FY2014 budget proposal. Although the provision may not be retained in this bill, the Stretch IRA proposal has considerable attraction for legislators as a revenue generator and will likely resurface in a future legislative package.
Pension Lender Inquiry

Sens. Harkin (D-IA) and Alexander (R-TN), Chairman and Ranking Member of the Senate HELP Committee, are opening a bipartisan inquiry into the practice known as pension sales, or pension advances.

At this time, this process has only consisted of a letter to the National Association of Attorneys General (NAAG) requesting “documentation and information that could help the Committee identify Americans who may have been targeted by lenders offering lump-sum payments, with potentially illegally high rates of interest repayment, in exchange for a stake in the borrower’s pension benefits.”

DOL Lifetime Income Proposal

On May 8, the DOL released an “advance notice of proposed rulemaking” (ANPRM) that would require ERISA-governed defined contribution (DC) plans to disclose a participant’s account balance as an annuity equivalent stream of lifetime payments. Comments are due to DOL by July 8, 2013.

The ANPRM is the result of comments received pursuant to a request for information issued by the DOL and Treasury in 2010 asking for input on various questions regarding lifetime income. Under the pre-rule, projections of lifetime income would be provided on benefit statements via an annuity approach, as opposed to a systematic withdrawal, and based on the participant’s current account balance. In addition, there two optional methods were identified:

- The plan may use “reasonable assumptions taking into account generally accepted investment theories” which must be expressed in current dollars and take into account future contributions and investment returns;
- The illustration must meet a “safe harbor” set of assumptions that are deemed reasonable to project the participant assets to a future retirement date on which the lifetime income would be based. The safe harbor would set forth specific criteria including contribution rates (3% per year), investment returns (7% per year) and a discount/inflation rate (3% per year).

Update on Tax Reform Activities

In early May, the House Ways and Means Committee’s tax reform working groups released a 500-plus page report on their findings concerning the current federal tax code. The working groups were specifically prohibited from including any policy recommendations in their report; therefore, the report focuses on a basic overview of current tax law and offers a starting point for future discussions. Also, in a joint effort between the House and Senate, Rep. Camp (R-MI), Chair of the House Ways and Means Committee and Sen.

Definition: ANPRM

An ANPRM is a “pre-rule” that requests an initial round of comments on possible regulatory language that may be modified and issued as a proposed regulation.
Baucus (D-MT), Chair of the Senate Finance Committee, announced a new website to solicit public input on tax reform.

**References**

Retirement Plan Simplification and Enhancement Act of 2013  
www.govtrack.us/congress/bills/113/hr2117/text

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DOL Advanced Notice of Proposed Rulemaking on Lifetime Income  
www.dol.gov/ebsa/newsroom/fsanprm.html

Report to the House Committee on Ways and Means on Present Law and Suggestions for Reform  
www.jct.gov/publications.html?func=startdown&id=4517 [PDF, 2.1MB, 568 pages, automatic download]

House Committee on Ways and Means Tax Reform Website  
https://taxreform.gov/
Nationwide® Federal Legislative and Regulatory Report       June 2013

II.  Sequester, Budget Issues Close IRS Offices Five Days This Year

The Internal Revenue Service has announced that its offices are closed on May 24, June 14, July 5, July 22 and Aug. 30, 2013, “due to the current budget situation, including the sequester.” This means that all IRS offices, including all toll-free hotlines, the Taxpayer Advocate Service and the agency’s nearly 400 taxpayer assistance centers nationwide, are closed on those days.

The IRS noted that taxpayers should continue to file their returns and pay any taxes due as usual.

Because none of the furlough days are considered federal holidays, the shutdown will have no impact on any tax-filing deadlines. The IRS will be unable to accept or acknowledge receipt of electronically-filed returns on any day the agency is shut down.

Similarly, tax-payment deadlines are also unaffected.

References

IRS to be Closed May 24, Four Other Days due to Budget and Sequester
http://tinyurl.com/a4cpysf
III. GAO Finds SSA Needs Strategy to Address Key Management Challenges

The Government Accountability Office recently issued a report that says the Social Security Administration (SSA) will experience management challenges in four key areas over the next decade.

(1) **Human capital.** SSA has not updated its succession plan since 2006 although the agency faces an ongoing retirement wave and hiring freeze which will make it difficult to respond to growing workload demands.

(2) **Disability program issues.** SSA faces ongoing challenges incorporating a more modern concept of disability into its programs, while balancing competing needs to reduce backlogs of initial and appealed claims and ensure program integrity.

(3) **Information technology (IT).** SSA has made strides in modernizing its IT systems to address growing workload demands, but faces challenges with these modernization efforts and correcting internal weaknesses in information security.

(4) **Physical infrastructure.** SSA is moving toward centralized facilities management, but the agency lacks a proactive approach to evaluating its office structure that will identify potential efficiencies, such as consolidating offices.

The report notes that SSA has ongoing planning efforts, but they do not address the long-term nature of these management challenges.

In a separate report, the GAO found that SSA struggles to effectively administer its Representative Payee Program, despite steps the agency has taken to address its challenges in identifying, selecting, and monitoring representative payees.

SSA is also encountering increasing numbers of beneficiaries who may not have a suitable payee readily available. In an effort to address this challenge, SSA hosted a webinar to recruit additional payees. However, agency officials said this effort did not produce any new payees.

The GAO says some of the actions SSA has taken to improve administration of the Representative Payee Program align with goals in the agency’s Strategic Plan. However, SSA has not developed a comprehensive plan for addressing the challenges this program faces over the long term.

**References**

*Long-Term Strategy Needed to Address Key SSA Management Challenges*

*Long-Term Strategy Needed to Address Challenges with SSA Representative Payee Program*
IV. Keeping watch

You can find the most recent information on issues affecting governmental defined contribution plans, plan sponsors and plan participants in the Employer page of our plan website, NRSforu.com. In addition, we report guidance on legislative and regulatory activity relevant to government sector plans through:

- **Federal Legislative and Regulatory Report** – distributed monthly and posted in the Plan Sponsor section of NRSforu.com. It’s available online and for download.
- **Plan Sponsor Alerts** – published as needed to announce breaking news.
- **457 Guidebook** – which has been revised to include information about the American Taxpayer Relief Act of 2012, Pension Protection Act of 2006; The Heroes Earnings Assistance and Relief Tax Act of 2008; Worker, Retiree & Employer Recovery Act of 2008; and The Small Business Jobs Act of 2010.

About this report

**BOB BEASLEY**, CRC, CIC, Communications Consultant, edits this report. Beasley brings 22 years of financial services communications experience to your plan. He helped prepare the four most recent editions of the 457 Guidebook, edits countless newsletters and plan sponsor communications, and in 2001 authored “What you should know about the Economic Growth and Tax Relief Reconciliation Act of 2001.” He often voices Nationwide’s online presentations and telephone greetings.

Beasley serves on the Education and Communication Committee for the Plan Sponsor Council of America and is a member of the National Association of Government Defined Contribution Administrators.

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