

USA: Proposals to Confiscate Workers' Personal Retirement Accounts

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Dems Target Private Retirement Accounts

Democratic leaders in the U.S. House discuss confiscating 401(k)s, IRAs

RALEIGH — Democrats in the U.S. House have been conducting hearings on proposals to confiscate workers' personal retirement accounts — including 401(k)s and IRAs — and convert them to accounts managed by the Social Security Administration.

Triggered by the financial crisis the past two months, the hearings reportedly were meant to stem losses incurred by many workers and retirees whose 401(k) and IRA balances have been shrinking rapidly.

The testimony of Teresa Ghilarducci, professor of economic policy analysis at the New School for Social Research in New York, in hearings Oct. 7 drew the most attention and criticism. Testifying for the House Committee on Education and Labor, Ghilarducci proposed that the government eliminate tax breaks for 401(k) and similar retirement accounts, such as IRAs, and confiscate workers' retirement plan accounts and convert them to universal Guaranteed Retirement Accounts (GRAs) managed by the Social Security Administration.

Rep. George Miller, D-Calif., chairman of the House Committee on Education and Labor, in prepared remarks for the hearing on "The Impact of the Financial Crisis on Workers' Retirement Security," blamed Wall Street for the financial crisis and said his committee will "strengthen and protect Americans' 401(k)s, pensions, and other retirement plans" and the "Democratic Congress will continue to conduct this much-needed oversight on behalf of the American people."

Currently, 401(k) plans allow Americans to invest pretax money and their employers match up to a defined percentage, which not only increases workers' retirement savings but also reduces their annual income tax. The balances are fully inheritable, subject to income tax, meaning workers pass on their wealth to their heirs, unlike Social Security. Even when they leave an employer and go to one that doesn't offer a 401(k) or pension, workers can transfer their balances to a qualified IRA.

Mandating Equality

Ghilarducci's plan first appeared in a paper for the Economic Policy Institute: Agenda for Shared Prosperity on Nov. 20, 2007, in which she said GRAs will rescue the flawed American retirement income system (www.sharedprosperity.org/bp204/bp204.pdf).

The current retirement system, Ghilarducci said, “exacerbates income and wealth inequalities” because tax breaks for voluntary retirement accounts are “skewed to the wealthy because it is easier for them to save, and because they receive bigger tax breaks when they do.”

Lauding GRAs as a way to effectively increase retirement savings, Ghilarducci wrote that savings incentives are unequal for rich and poor families because tax deferrals “provide a much larger ‘carrot’ to wealthy families than to middle-class families — and none whatsoever for families too poor to owe taxes.”

GRAs would guarantee a fixed 3 percent annual rate of return, although later in her article Ghilarducci explained that participants would not “earn a 3% real return in perpetuity.” In place of tax breaks workers now receive for contributions and thus a lower tax rate, workers would receive \$600 annually from the government, inflation-adjusted. For low-income workers whose annual contributions are less than \$600, the government would deposit whatever amount it would take to equal the minimum \$600 for all participants.

In a radio interview with Kirby Wilbur in Seattle on Oct. 27, 2008, Ghilarducci explained that her proposal doesn’t eliminate the tax breaks, rather, “I’m just rearranging the tax breaks that are available now for 401(k)s and spreading — spreading the wealth.”

All workers would have 5 percent of their annual pay deducted from their paychecks and deposited to the GRA. They would still be paying Social Security and Medicare taxes, as would the employers. The GRA contribution would be shared equally by the worker and the employee. Employers no longer would be able to write off their contributions. Any capital gains would be taxable year-on-year.

Analysts point to another disturbing part of the plan. With a GRA, workers could bequeath only half of their account balances to their heirs, unlike full balances from existing 401(k) and IRA accounts. For workers who die after retiring, they could bequeath just their own contributions plus the interest but minus any benefits received and minus the employer contributions.

Another justification for Ghilarducci’s plan is to eliminate investment risk. In her testimony, Ghilarducci said, “humans often lack the foresight, discipline, and investing skills required to sustain a savings plan.” She cited the 2004 HSBC global survey on the Future of Retirement, in which she claimed that “a third of Americans wanted the government to force them to save more for retirement.”

What the survey actually reported was that 33 percent of Americans wanted the government to “enforce additional private savings,” a vastly different meaning than mandatory government-run savings. Of the four potential sources of retirement support, which were government, employer, family, and self, the majority of Americans said “self” was the most important contributor, followed by “government.” When broken out by family income, low-income U.S. households said the “government” was the most important retirement support, whereas high-income families ranked “government” last and “self” first (www.hsbc.com/retirement).

On Oct. 22, *The Wall Street Journal* reported that the Argentinean government had seized all private pension and retirement accounts to fund government programs and to address a ballooning deficit. Fearing an economic collapse, foreign investors quickly pulled out, forcing

the Argentinean stock market to shut down several times. More than 10 years ago, nationalization of private savings sent Argentina's economy into a long-term downward spiral.

Income and Wealth Redistribution

The majority of witness testimony during recent hearings before the House Committee on Education and Labor showed that congressional Democrats intend to address income and wealth inequality through redistribution.

On July 31, 2008, Robert Greenstein, executive director of the Center on Budget and Policy Priorities, testified before the subcommittee on workforce protections that "from the standpoint of equal treatment of people with different incomes, there is a fundamental flaw" in tax code incentives because they are "provided in the form of deductions, exemptions, and exclusions rather than in the form of refundable tax credits."

Even people who don't pay taxes should get money from the government, paid for by higher-income Americans, he said. "There is no obvious reason why lower-income taxpayers or people who do not file income taxes should get smaller incentives (or no tax incentives at all)," Greenstein said.

"Moving to refundable tax credits for promoting socially worthwhile activities would be an important step toward enhancing progressivity in the tax code in a way that would improve economic efficiency and performance at the same time," Greenstein said, and "reducing barriers to labor organizing, preserving the real value of the minimum wage, and the other workforce security concerns . . . would contribute to an economy with less glaring and sharply widening inequality."

When asked whether committee members seriously were considering Ghilarducci's proposal for GSAs, Aaron Albright, press secretary for the Committee on Education and Labor, said Miller and other members were listening to all ideas.

Miller's biggest priority has been on legislation aimed at greater transparency in 401(k)s and other retirement plan administration, specifically regarding fees, Albright said, and he sent a link to a Fox News interview of Miller on Oct. 24, 2008, to show that the congressman had not made a decision.

After repeated questions asked by Neil Cavuto of Fox News, Miller said he would not be in favor of "killing the 401(k)" or of "killing the tax advantages for 401(k)s."

Arguing against liberal prescriptions, William Beach, director of the Center for Data Analysis at the Heritage Foundation, testified on Oct. 24 that the "roots of the current crisis are firmly planted in public policy mistakes" by the Federal Reserve and Congress. He cautioned Congress against raising taxes, increasing burdensome regulations, or withdrawing from international product or capital markets. "Congress can ill afford to repeat the awesome errors of its predecessor in the early days of the Great Depression," Beach said.

Instead, Beach said, Congress could best address the financial crisis by making the tax reductions of 2001 and 2003 permanent, stopping dependence on demand-side stimulus, lowering the corporate profits tax, and reducing or eliminating taxes on capital gains and dividends.

Testifying before the same committee in early October, Jerry Bramlett, president and CEO of BenefitStreet, Inc., an independent 401(k) plan administrator, said one of the best ways to ensure retirement security would be to have the U.S. Department of Labor develop educational materials for workers so they could make better investment decisions, not exchange equity investments in retirement accounts for Treasury bills, as proposed in the GSAs.

Should Sen. Barack Obama win the presidency, congressional Democrats might have stronger support for their “spreading the wealth” agenda. On Oct. 27, the American Thinker posted a video of an interview with Obama on public radio station WBEZ-FM from 2001.

In the interview, Obama said, “The Supreme Court never ventured into the issues of redistribution of wealth, and of more basic issues such as political and economic justice in society.” The Constitution says only what “the states can’t do to you. Says what the Federal government can’t do to you,” and Obama added that the Warren Court wasn’t that radical.

Although in 2001 Obama said he was not “optimistic about bringing major redistributive change through the courts,” as president, he would likely have the opportunity to appoint one or more Supreme Court justices.

“The real tragedy of the civil rights movement was, um, because the civil rights movement became so court focused that I think there was a tendency to lose track of the political and community organizing and activities on the ground that are able to put together the actual coalition of powers through which you bring about redistributive change,” Obama said.

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