

VIDEO

March 7, 2014

Focus on Funds: White House Budget Proposal Is Misguided

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The March 7, 2014, issue of *Focus on Funds* explains a proposal in the president's newly released budget that would limit the incentives encouraging people to save for retirement.

Transcript

Stephanie Orbals-Tibbs, Director, ICI Media Relations: Welcome to *Focus on Funds*, the Investment Company Institute's weekly roundup of industry news, ICI activities, and research findings.

The White House's proposed budget for fiscal year 2015 is out. And, it contains proposals that would limit some of the existing tax incentives that have helped Americans build the \$22 trillion in retirement savings that they have today.

The budget proposals include both a limit on the up-front tax benefits for 401(k) and IRA savers and a cap on the amount Americans can accumulate through the combination of defined benefit plans, defined contribution plans, and individual retirement accounts.

The proposal to limit retirement tax benefits at 28 percent often stems from a basic misunderstanding of the difference between tax deferral on retirement benefits and a tax deduction.

Pete Brady, Director, ICI Retirement and Investor Research: Whether you work for the government or in the private sector, whether you have a defined benefit plan or a defined contribution plan, whether you are high income or low income, all workers receive the same tax treatment: they pay no tax on compensation set aside for retirement until they receive the money.

Unlike deductions or exclusions, contributions to retirement plans are not tax-free, they are tax-deferred: everyone pays taxes when the funds are distributed. There are no special tax breaks to fix, no loopholes to close.

Stephanie Orbals-Tibbs, Director, ICI Media Relations: The benefit that a worker receives from tax deferral encourages employers to offer—and workers to participate

in—retirement plans.

Which is why limiting it could have such a negative impact.

The Administration's budget also proposes to cap the total amount a worker could accumulate in the combination of DB plans, DC plans, and IRAs. It's a complex rule that would be difficult for businesses and workers to track and could prevent workers from reaching their full retirement savings goals.

Pete Brady, Director, ICI Retirement and Investor Research: Employers provide retirement benefits because their workers value them. The two proposals in the Administration's budget would reduce the value of retirement benefits for many workers. If enacted, some employers will find that the benefits their employees receive no longer justify the expense of maintaining a plan.

Stephanie Ortals-Tibbs, Director, ICI Media Relations: A further breakdown of the proposals is on ICI's website.

That's this week in funds. See you next week.

Additional Resources

- [ICI Viewpoints: Washington: Put Your \(Retirement\) Money Where Your Mouth Is](#)
- [ICI Retirement Research](#)

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