

112th Congress
1st Session

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To amend the Internal Revenue Code of 1986 to establish a retirement early warning system and Fair Retirement Reporting Act.

IN THE SENATE OF THE UNITED STATES

A BILL

To standardize benchmarks for retirement planning software to allow for a common conversation regarding retirement longevity and to amend the Internal Revenue Code of 1986 to encourage individuals to take action to accurately plan for retirement and to understand when their funds and resources for retirement will likely be exhausted so that there is sufficient time to make changes in their planning to meet retirement needs.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress, assembled.

SECTION 1. SHORT TITLE

This Act may be cited as the “Fair Retirement Reporting Act of 2010”.

SECTION 2. FINDINGS

The Congress finds the following:

“A university study cited that the most important variable in predicting whether people would be able to maintain their standard of living during retirement was whether they currently are spending less than their income. The real challenge, thus, is getting people to take the first step by focusing on where they are right now. If that succeeds, the rest will fall into place.”*

People who have attended financial seminars, for example, had a net worth 20 percent greater than those who were complacent about money matters, according to “Financial Literacy and retirement Preparedness: Evidence and Implications for Financial Education,” a survey by Annamaria Lusardi of Dartmouth College and the Harvard Business School, and Olivia S. Mitchell, director of the Pension Research Council of the Wharton School at the University of Pennsylvania. Part of the increase can be attributed to motivation --- the people who had attended seminars were more apt to want to save and invest. Most importantly, those who know the most about the workings of the financial markets are more successful in weathering the swings of the markets.

Lusardi and Mitchell found that people who were literate in financial matters and who were self-identified as doing “a lot” of retirement preparation had a median net worth of \$200,000 compared with \$84,000 for those who planned “hardly at all.”

“Our review reveals that many households are unfamiliar with even the most basic economic concepts needed to make saving and investment decisions.” The authors said in their 2007 study. “Such financial illiteracy is widespread: The young and older people in the United States and other countries appear woefully under informed about basic financial concepts [like compounded interest and percentages], with serious implications for savings, retirement planning, mortgages and other decisions.

As corporate America shifts more and more of the burden for funding retirement to ordinary citizens, economists are asking these types of questions.

- How do you get people who never have money left over at the end of the month to save even 5 percent of their income for their future?
- How can people who have little or no knowledge of investing in stocks and bonds increase the returns they get on the money they save? **

The Congress also finds:

(1) Just over half of all United States workers actively participate in tax-deferred retirement savings plans which are comprised of assets of nearly

\$5,600,000,000,000 ; however the number of people participating is decreasing due to the recession our country is currently experiencing.

(2) Congress has historically promoted policies that will encourage greater private savings for retirement, but has not devoted the same attention to developing policies that will protect people by setting standards for analysis tools used in retirement planning OR helping people learn basic financial literacy lessons necessary to manage the savings once they reach retirement age.

(3) Qualified retirement savings plans are the product of retirement savings policies and provide Americans with valuable resources for their later years.

(4) Non-qualified plans provide an additional retirement benefit.

(5) 77,000,000 members of the baby boom generation are approaching retirement age and demographic data indicate that members of this generation can expect to live on average an additional 20 to 30 years after retirement.

(6) The commitment of Congress to creating incentives to promote private savings and to manage accumulated savings does not supersede the responsibility of Congress to reduce the national debt and bring the Federal budget back into balance.

(7) Failure to address the confusion Americans have regarding their current retirement longevity and failure to address long term savings issues will only serve to increase the strain on Federal programs such as Social Security, Medicare, and Medicaid.

(8) The national debt and annual budget deficits pose a significant risk not only to national security but also to the long-term solvency of the Social Security and Medicare programs.

(9) Encouraging clear and relevant measures for the analysis of an individual's retirement longevity and helping individuals learn basics for prudent management of accumulated savings while reinforcing personal

responsibility for retirement income security will reduce the potential financial threat to well-established entitlement programs for senior citizens.

(10) The budget impact of this Act will be mitigated through the legislative process so that the enactment of this Act will not add to the \$12.5 trillion national debt.

SECTION 3. TAX CREDIT FOR RETIREMENT PLANNING

Section ____ of the Internal Revenue Code shall be amended to allow a tax credit up to \$200 a year for individuals for expenses incurred for professional services using planning software meeting requirements defined under this act or expanded by the SEC or IRS.

The Internal Revenue Service shall develop a seal which can be used only by qualified service professionals skilled in helping people with understanding and planning for retirement. These certified professionals must have the qualifications necessary to give assistance in finding the number of years a person's resources will last given their current investment pattern, spending pattern and planned date of retirement.

To qualify under the act to serve as a retirement planning professional, the financial professional must use software which has minimum reporting benchmarks as determined by this act or expanded by the SEC or IRS for forecasting the sufficiency of retirement planning for individuals who seek to measure his or her retirement readiness under this Act.

Readiness is defined as an understanding of the length of time an individual's resources will last to cover the expenses they anticipate they will need to cover over the course of their lifetime.

Any financial planning software approved by the IRS under this act shall contain inflation numbers simulated by actual historic numbers rather than inflation numbers based on assumptions entered by either the individual or the investment advisor.

Any financial planning software approved by the IRS under this act must strap inflation information to the CPI for elderly (CPIE) during retirement years in the projection vs. using the standard CPI.

Any financial planning software approved by the IRS under this act must maintain cross correlation between asset class ROI (Return on Investment) using historic data reflecting past historical performance for similar investments and pair this with inflation numbers.

Only advisors accepting fiduciary duty will have the ability to give consumers a qualified receipt for the tax credit. In using software programs to give their advice, they must accept both fiduciary responsibility and sign a statement that the software they use meets the software requirements under this act.

Upon receipt of payment for products and services qualifying under this act, the vendor or advisor will give a receipt with their IRS code to the consumer. Consumer will then use this code on their IRS form allowing them to receive the tax credit under this act.

SECTION 4. Tax Deduction for Retirement Education and use of consumer based retirement software to measure retirement readiness

Section _____ of the Internal Revenue Code shall be amended to allow a tax deduction up to \$600.00 a year for

an individual's education meeting existing or expanded standards of the National Endowment for Financial Education Jumpstart program. Individuals attending this approved training will receive a tax deduction (without 2% AGI limit adjustment currently in place in the current IRS statute)

an individual's use of consumer based software predicting retirement readiness which meets requirements defined in this act. Individuals using software qualified under this act will receive a tax deduction (without 2% AGI limit adjustment currently in place in the current IRS statute)

SECTION 5. Income into the IRS for payment of the program.

The credits and deductions under this act will be paid for through income made from educators and advisors meeting the standards and criteria using software meeting standards under this act.

The offsetting federal income for this program will be generated through the following sources (as contained in the table below). A yearly review conducted by the IRS will determine an increase or decrease in the percentages paid to the federal government by the following three sectors providing services under this act.

Approved Financial Education Seminars	Consumer receives deductions up to \$600 per year for enrollment and completion of approved training.	Companies holding these trainings pay to IRS 34% of gross income received from program.
Advisors/financial professionals certified to run software meeting the act's standards and qualified to give advice	Consumer receives federal tax credit up to \$200 for advisor fee giving client the information regarding years resources will last. Software used to provide guidance must meet requirements delineated in this act.	Qualified advisor must pay certification fee (to receive an IRS code certifying their ability to meet this act's requirement) and pays 80% of gross income for 1 st \$200 of this service per person able to receive the credit.

*National Endowment for Financial Education think tank 1999 on retirement planning.

** American Federation of Teachers