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**MATT COMPTON,**  
Director of Retirement  
Services,  
Brio Benefits

## Compliance:

# What Biden's Win Means for Retirement Plans

*Experts say the president-elect could start the process of shoring up Social Security and embrace ESG investing.*

**By Lee Barney**

President-elect Joe Biden's proposed changes to retirement plans could strengthen them and begin the process of shoring up the Social Security Administration's trust fund, experts say.

"President-elect Joe Biden plans to boost minimum Social Security benefits for a single individual to 125% of the poverty level, which amounts to \$15,950 in 2020, and to boost surviving spouse benefits to 75% of the combined household income, which is a higher benefit than now," says Michael Foguth, founder of Foguth Financial Group. "President-elect Biden also plans to boost Social Security payments by 5% for recipients who have been collecting for 20 years or more."

Biden plans to pay for all of this by adding a surtax on wage earners earning more than \$400,000 a year, Foguth says. These proposals would only keep the trust fund solvent for an additional five years, so it would become insolvent in 2040, Foguth says.

"It is a move in the right direction, but much more is needed to fix the Social Security problem we are facing in the next 15 to 20 years, and that is not even taking into account any of the effects from this year's COVID-19 problem," he says.

As far as private retirement plans are concerned, Biden proposed replacing the tax deduction that people currently get with a tax credit, says Jamie Hopkins, director of retirement research at Carson Group. “What that does is increase the tax incentive to save in 401(k)s for everyone, and it will encourage lower income people to save.”

However, David McBee, an institutional consultant with Next Retirement Solutions, says that with its safe harbor provision, 401(k) plans are already structured to be fair to people at all income levels. Looking at how plans without automatic enrollment try company matches to entice people to participate but fail, McBee says he does not believe that the credit will be enough of an incentive to move the needle.

“Coming out with a complex tax benefit that most people won’t understand won’t make a difference,” he argues.

Even if it did, it would have the unintended consequence of creating many more defined contribution (DC) accounts with small balances, McBee says. Accounts with sizable balances subsidize the cost of the smaller accounts, so these changes could potentially result in higher administrative costs for participants, he says.

And should the tax deduction be replaced with a tax credit, it could prompt higher earners to move into a Roth plan, wherever available, which would bring more taxes to the U.S. government in the short run but hurt it in the long run. This is because withdrawals from the high ending balances will be taken tax free, he notes.

Biden is also likely to try to make automatic enrollment mandatory, says Matthew Compton, director of retirement services at Brio Benefits. Compton calls this “extremely appealing,” and adds, “We strongly believe that automatic enrollment is the right thing to do for most employees, as proven by the fact that 90% of participants remain in a plan when they have been automatically enrolled.”

Biden has also proposed allowing Medicaid funds to be used to cover in-home care, which would greatly help with the long-term care challenge older Americans face, Hopkins says. The President-elect also wants to give a \$5,000 tax credit to long-term care caregivers.

There is also an expectation that the Biden presidency will embrace environmental, social and governance (ESG) investing by “seeking more accountability for publicly traded companies,” says Julia Carlson, CEO of Financial Freedom Wealth Management Group. “Biden’s administration might ask companies to disclose their climate risk and emissions levels and their impact on the environment.”

The makeup of the Senate is still unclear, as two Senate races in Georgia have moved to a runoff election that will be decided in early January. Policy experts have said a divided government could pose challenges to some of Biden's plans, while a Senate controlled by Democrats could spell more progressive policy changes.

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