Politics

House Passes Bill Making Big Changes to U.S. Retirement System

Age cap for contributing to IRAs is repealed, among other shifts; legislation would move to Senate

The House of Representatives on Thursday passed legislation that would bring substantial changes to the U.S. retirement system, making it easier for employers to offer plans and include annuities as options for workers.

Backed by a bipartisan group of lawmakers including Rep. Richard Neal (D., Mass.), chairman of the House Ways and Means Committee, the House version of the legislation would repeal the age cap for contributing to individual retirement accounts, currently 70½. It would also increase the age to start taking required withdrawals from 401(k)s and IRAs to 72 from 70½.
The House bill, known as the Setting Every Community Up for Retirement Enhancement, or Secure Act, passed with a vote of 417-3.

Lawmakers have been discussing many of the retirement changes for years, and the Senate may be poised to pass this bill or a similar one quickly and send it to President Trump's desk. The changes would be the most significant to retirement plans since 2006, when Congress made it easier for employers to enroll workers automatically in 401(k)-type plans.

The bill passed Thursday, which includes many of the provisions in a similar bill in the Senate, would encourage 401(k)-style plans to offer annuities by giving certain employers some protection from future liability if their chosen insurer fails to pay claims. Annuities help participants convert their balances into a steady lifetime income.

One difference between the House and Senate bills is that the House version would allow parents to withdraw up to $10,000 from 529 education-savings plans for repayments of some student loans. In addition, parents could take penalty-free distributions from retirement accounts of up to $5,000 within a year of the birth or adoption of a child to cover associated expenses.
To help pay for the changes, the House legislation would require many people who inherit tax-advantaged retirement accounts to withdraw the money within a decade and pay any taxes due. The Senate version, the Retirement Enhancement and Savings Act, or RESA, would require beneficiaries to liquidate balances above $400,000 at the date of death within five years. (Both exempt some beneficiaries, including surviving spouses and minor children.) Currently, beneficiaries can often liquidate those accounts over their own lifetimes and stretch out tax payments.

Both the House and Senate versions allow employers without an affiliation to band together to offer a 401(k)-type plan—an effort to encourage companies without retirement plans to offer them. Under such arrangements, companies can shift some of the administrative burden and fiduciary responsibility for a retirement plan to a plan administrator.

A Senate GOP aide said the plan is for the Senate to vote on the House's Secure Act, rather than its own version.

Consumer advocates have raised concerns about some of the annuity provisions.

While the legislation would protect employers from liability if they select an insurer that is licensed by a state, Barbara Roper, director of investor protection at the nonprofit Consumer Federation of America, said Congress should also require employers to consider insurers' financial-strength ratings and make it clear that the employer has legal liability for negotiating the annuity's price and other terms.

Congress may take up other retirement-related proposals later this year. One bill, proposed recently by Sens. Rob Portman (R., Ohio) and Ben Cardin (D., Md.), would give employers incentives to increase the standard minimum default contribution rate under auto-enrollment to 6% from 3%. It would also permit employers to make matching contributions to the 401(k) accounts of employees paying off student loans.

Mr. Neal is expected to reintroduce a bill that would require most businesses that don't have a retirement plan to offer one that automatically enrolls employees.

The House bill also repeals a 2017 change to the so-called Kiddie Tax that often boosts tax rates on "unearned" income received by children in low- and middle-income families and was causing surprise tax increases for many. The measure allows affected taxpayers, including thousands of families of deceased active-duty service members, to retroactively elect not to pay the tax. The measure would also benefit survivors of first responders, children who receive certain tribal payments and college students receiving scholarships.

Richard Rubin contributed to this article.

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