Individual Savings Provisions in the Savings Competitiveness Act of 2006

Greater Access to Payroll Savings: If an eligible employee is not covered by an employer-sponsored retirement plan, the employer must allow the employee to contribute to an IRA through payroll deduction. State laws limiting payroll deductions are preempted for this purpose.

Small Employer Payroll Savings Credit: An employer with fewer than 25 employees can take a one-time tax credit of $25 per contributing employee (up to a maximum of $250) to offset the start-up costs of the payroll arrangement. Employers who incorporate automatic enrollment into the payroll savings programs receive the credit for an additional two years.

Secure Retirement Accounts: A "Secure Retirement Account" is the default IRA for payroll savings programs. To be a "Secure Retirement Account," the account must offer an investment mix similar to that of the Federal Thrift Savings Plan and meet moderate cost standards.

Refundable Saver's Credit Matches: The Saver's Credit is transformed into a refundable matching credit. The match is equal to 50 percent of the first $2,000 a worker contributes to any IRA or retirement plan (for a maximum match of $1,000). Eligibility for the full credit is limited to those with adjusted gross income below $50,000 (married), $37,500 (head of household), $25,000 (single). The 50% credit is phased out over the next 20% of AGI. The credit must be deposited to a Roth IRA or Roth 401(k).

Automatic Enrollment: The bill includes the automatic enrollment provisions of S. 1783, the "Pension Security and Transparency Act of 2005," without change. Automatic enrollment has proven to be an effective way of increasing worker participation. To encourage such arrangements, S. 1783 includes a modified safe harbor from the tax code nondiscrimination rules, preempts state laws impeding automatic enrollment, and provides fiduciary protection.

Small Employer Pension Plan Contributions Credit: Small employers can take a tax credit for contributions to a new qualified defined contribution or defined benefit plan. The credit is available for the first 3 years of the plan. The credit is equal to 50 percent of the amount of employer contributions (for non-highly compensated employees) up to 3% of compensation.

Means-Tested Federal Programs: For purposes of determining financial eligibility for certain Federal housing and food stamp provisions, the government may not take retirement savings into consideration. Retirement amounts may be considered once the worker reaches Social Security normal retirement age.

Direct Payment of Tax Refunds to IRAs: The bill directs the Secretary of the Treasury to develop a form that will allow taxpayers to have their refunds deposited directly to their IRAs.

Mandatory Distribution Requirements' Exemption: Individuals with aggregate savings of less than $200,000 in all of their IRAs, retirement plans, and health savings accounts (but ignoring annuities) at the end of the preceding year calculate their age 70-1/2 minimum distribution requirements without regard to the first $50,000 of savings.

Additional Employer Contributions to SIMPLEs: The bill allows sponsors of SIMPLE Plans and SIMPLE IRAs to make "non-elective" contributions of up to 10% of compensation to these SIMPLE arrangements. (Current law limits these contributions to 2% of compensation.)

Early Distribution Tax Exceptions: The exceptions to the excise tax for premature distributions from IRAs and Plans are made consistent by extending the IRA exceptions for distributions for health insurance premiums for the unemployed, qualified higher education expenses, and first home purchases to all distributions. The only remaining difference will be the age 55-retirement exception for distributions from plans still will not apply to distributions from IRAs. In addition, the higher penalty tax for distributions from SIMPLE Plans and SIMPLE IRAs in the first two years of participation is eliminated.

Direct Rollovers to Roth IRAs: Taxpayers may rollover money from a qualified plan to a Roth IRA in one step instead of the current two steps. This provision is also found in S. 1783.

Coordination of Taxation Rules: The bill applies the "basis first" approach currently applicable to taxation of distributions from a Roth IRA to taxation of distributions from a Roth 401(k) account.

Young Saver's Accounts: Parents can make contributions to Roth IRAs for their children. Any contributions to the child are counted toward the parents' Roth contribution limits.