

THE AUTOMATIC IRA ACT OF 2025

The Automatic IRA Act of 2025 would dramatically expand retirement coverage of employees, gig workers, and other independent contractors. It would build upon, expand, and improve the private pension system in a manner that explicitly protects and complements employer-sponsored plans and arrangements.

The bill also would build on, expand, and protect the growing state-facilitated automatic IRA programs, which continue to pilot the proposed nationwide automatic IRAs. The state automatic IRAs show that automatic IRAs work. They demonstrate how automatic IRAs expand coverage directly to attack the racial, ethnic, gender, and low-income coverage and savings gaps and how they further strengthen the nation's private pension system by promoting wider adoption of 401(k) and similar employer-sponsored plans.

Under current federal law, employer participation in the retirement system is generally voluntary. When employers do sponsor a retirement plan, it often allows employees to contribute to their retirement savings through a salary reduction arrangement, i.e., to agree that money otherwise payable to them in cash is instead contributed to their account in a retirement plan. Such salary reduction arrangements were traditionally designed so that employees received cash compensation unless they affirmatively elected to contribute to the plan. Alternatively, salary reduction arrangements have increasingly provided that elective deferrals are made automatically at a specified rate (i.e., automatic enrollment) unless an employee affirmatively elects otherwise.

The bill generally would require employers with more than 10 employees that do not sponsor a retirement plan to automatically enroll their employees in IRAs (automatic IRAs) or other automatic contribution plans or arrangements, like 401(k) plans. In general, this requirement is essentially costless to smaller employers, as smaller employers required by this bill to adopt plans or automatic IRAs would be eligible for the existing startup tax credit or the proposed \$500 3-year automatic IRA tax credit.

Exceptions

The requirement to auto-enroll employees in either an automatic IRA or an automatic contribution plan is subject to several exceptions. The requirement does

not apply to any employer that already maintains any qualified retirement plan before enactment of the bill. The requirement is satisfied by employer participation in an automatic IRA program enacted before 2028 under state law that requires certain employers to facilitate automatic IRAs.

In addition, the requirement does not apply to employers with 10 or fewer employees, to employers that have been in existence for less than two full years, or to employers with respect to governmental plans or church plans.

Automatic IRAs

Automatic IRAs are payroll deduction IRAs. Under the proposed legislation, employers contribute a default percentage of an employee's paycheck to the employee's automatic IRA account. Employees can raise or lower their contribution percentage or can opt-out entirely from the program. Employees can choose to contribute to either a traditional IRA or Roth IRA, but if no affirmative choice is made, the default is a Roth IRA.

Under the proposal, an employer can select a provider (trustee or issuer) of a certified automatic IRA arrangement to which employees' elective contributions will be sent. The employer also may choose to allow each individual employee to direct that the contributions be sent to an IRA selected by the employee.

The legislation directs the Treasury Secretary to issue guidance providing for automatic IRAs to be made available to individuals who provide services that do not constitute employment. This will cover gig workers, self-employed individuals, freelance workers, independent contractors, and other non-employees.

Level of Contributions

With respect to the amount of salary or wages employees would contribute, the proposed legislation requires all automatic contribution plans or arrangements (except for automatic IRAs) to:

- Default at a minimum of 6% (can be higher, but only up to 10% the first year and 15% thereafter).
- Automatically escalate at 1% per year up to 10%, i.e., 6% to 7% to 8% to 9% to 10%. Treasury will prescribe administrative rules to facilitate implementation of automatic escalation.

For automatic IRAs, the exact level of default contributions is not left to the employer's discretion. The set level for default contributions is as follows:

- Year 1 – 6%
- Year 2 – 7%
- Year 3 – 8%

- Year 4 – 9%
- All subsequent years – 10%

Investments

Automatic IRAs must offer employees (1) a target date fund, which must be the default investment, (2) a principal preservation fund, (3) a balanced fund, and (4) any others that might be added by Treasury in the future, but no other investment alternative. In general, for other automatic contribution plans and for state-based auto IRAs, current law applies with respect to investments.

Lifetime Income Requirement

Generally, with respect to 401(k)-type plans with over 100 participants, the legislation requires that such plans must permit participants to elect to receive at least 50 percent of their vested account balance in the form of lifetime income. This requirement does not apply for participants with balances of up to \$200,000.

Credit for Small Employer Automatic IRAs

The bill would create a new tax credit (\$500 per year for 3 years) for employers of up to 100 employees that facilitate automatic IRAs (whether under this federal legislation or state law).

Effective Dates

In general, the legislation would apply to plan years beginning after 2027. The new credit for small employer automatic IRAs would apply to tax years beginning after 2025.