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With U.S. President Barack Obama visiting Canada today just as the market is threatening to fall to new lows, it's worth looking at some of his ideas to reform Social Security and the American retirement system.

Yesterday, of course, Obama took the wraps off his mortgage rescue plan, with proposed subsidies of $US75 billion to entice lenders to reduce mortgage rates for between 3-million and 4-million borrowers in jeopardy of losing their homes. Obama rightly views the mortgage crisis as inextricably interconnected with the financial crisis and the broader worldwide economic crisis.

In January, this report summarized five main thrusts to Obama's overhaul of the American retirement system. Proposals like eliminating income taxes for seniors making less than $50,000 are certainly revolutionary. Given the recent furor over taxing withdrawals from shattered RRIFs (Registered Retirement Income Funds), it's a safe bet Canadian seniors would welcome similar relief.

Obama's proposal for automatic workplace pensions is intriguing given the continuing decline of Defined Benefit employer pensions on both sides of the border. Given the stock market disaster there are basically two kinds of prospective retirees in North Americans: the "haves" with secure employer pensions; and the far more numerous "have-nots" who have basically abandoned hope of retiring at a decent age. It's pretty clear that many workers fail to take advantage of optional Defined Contribution employer pensions and more employers, especially smaller ones, need a

push to take care of their older workers.

Obama may raise Social Security payroll taxes for the well-heeled. Here in Canada, contribution rates for the Canada Pension Plan were hiked substantially in the mid 1990s and most pension experts regard the plan as being on a sounder foundation than U.S. Social Security. And Canada's universal health care system certainly provides seniors with a degree of security Americans lack. Whether or not the stock market recovers, many older Americans cling to their jobs because of employer health plans. Obama's initial Medicare focus is on lowering drug prices.

So how does this net out for American workers and a Retirement that Wall Street

has all but destroyed for millions of workers?

According to Pam Villarreal, Senior Policy Analyst with the National Center for Policy Analysis [pictured below], "Obama's retirement reform proposals are somewhat of a mixed bag. Some of his proposals will benefit workers saving for retirement, while others will destroy workers' nest eggs."

Here's Villarreal's take on Obama's retirement proposals:

Income tax. The Obama administration would like to eliminate income taxes for seniors making less than $50,000 annually. The White House estimates this will provide a tax cut averaging $1,400 to 7 million seniors. This plan is well intentioned, but Villarreal asks: "Why not just eliminate the tax on Social Security benefits? It's unfair to seniors regardless of their income because it subjects seniors to marginal tax rates that are even higher than those paid by working Americans."

Automatic workplace pensions. Obama plans to automatically enroll employees in workplace pension plans. Employers who do not currently offer a retirement plan will be required to enroll their employees in a direct-deposit IRA account. Workers may opt out if they choose. The White House says this program will increase the savings participation rate for low and middle-income workers from 15% to approximately 80%. Families that earn less than US$75,000 would get a 50% match on the first US$1,000 automatically deposited into their account. Villarreal says automatic enrollment is an idea originally proposed by the NCPA and Brookings Institution, which led to federal law now allowing companies to automatically enroll employees into 401(k) plans. Obama is extending that even further. She believes this is a good idea. "This would certainly increase the savings rate, provided that this mandate wouldn't impose on unnecessary costs and burdens on businesses."

Company pensions. Many companies are slashing retirement benefits as their bottom lines suffer. Obama plans to prohibit firms from issuing executive bonuses while cutting worker pensions, increase the amount of unpaid wages and benefits workers can claim in court, and limit the circumstances under which retiree benefits can be reduced. Employees would also receive annual disclosures about their pension fund's investments. Villarreal says some current tax laws create the perverse incentive of companies reducing pension funds and increasing executive benefits. "Companies should be required to make due on their pension promises in good faith."

Social Security. Obama is considering plans to raise Social Security payroll taxes for those making over US$250,000 a year by two to four per cent (combined employer and employee). The administration does not currently have plans to privatize Social Security or raise the retirement age. Imposing on Social Security payroll tax on high-income earners is a bad idea, Villarreal says. "If these earners aren't going to receive additional benefits from paying additional payroll taxes, then Social Security

becomes more of a welfare than an income distribution program."

Medicare. Obama supports allowing the federal government to negotiate lower drug prices for Medicare recipients, importing prescription drugs from overseas, helping cheap and safe generic drugs get to market faster, and closing the doughnut hole gap in Medicare Part D prescription drug coverage.

"I don't agree with any type of negotiation with drug companies," Villarreal says. "This is a code word for 'price controls', which would stifle research and innovation." Since the government is a large purchaser of prescription drugs through its public health programs, it would have the ability to coerce pharmaceuticals into offering rock-bottom prices, which would essentially amount to price controls.