

# Obama Revisits \$3M Retirement Cap, Deduction Limits

By Emile Hallez, [Ignites](#), March 5, 2014 [subscription required]

A tax-benefit reduction the White House is aiming at the wealthiest 3% of the country would translate to less retirement savings among small-business employees, say critics of President Barack Obama's proposed 2015 budget.

[The budget](#), which the White House proposed Tuesday, includes two ideas the Obama administration floated last year: placing a cap on certain tax deductions at 28% for people in the top three income tax brackets, and limiting the value of retirement accounts to an equivalent of \$200,000 per year in retirement income, or currently a total of about \$3 million.

Those changes would have no impact on all but the wealthiest retirement savers, according to the Obama administration.

But opponents point to a chain of events they envision that would affect middle-class workers.

In this scenario, some small-business owners would stop offering defined contribution plans to their employees, as they would personally have no remaining tax benefit from the retirement plans. Upon reaching the current \$3 million limit in their accounts, owners might no longer see the point in offering a plan, critics of the White House budget say.

Further, the 28% tax-deduction cap for people in the top three income brackets amounts to double taxation — contributions to 401(k)s and other retirement accounts could be partially taxed up front and then later, at distribution, opponents note.

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Average savings in IRAs and other retirement accounts are only about \$100,000, which is inadequate for funding a retirement, says Niels Holch, executive director of the Coalition of Mutual Fund Investors.

“The evidence is clear that people are not saving enough for retirement under our 401(k) defined contribution system,” Holch says. “We ought to be expanding incentives for retirement [saving] and not coming up with proposals such as this.”

Retirement assets should be allowed to compound tax-free, with taxation at distribution, he says, adding that the tone of the tax-reform proposals seems designed to incite class warfare.

“If they trim this back for the wealthy, they’re going to trim it back for the middle class next,” he says.