

## 1, 2, 3...Now the Government Controls Your IRA?

Since the early days of the Obama presidential campaign, there has been a stealth proposal floating about to nationalize our IRA and 401(k) accounts. Like most long-term bad ideas, this one uses a short-term cover story to conceal the real goal.

Here's the cover story: "The current system of retirement saving in which an IRA is directed by its owner will never succeed". As proof, all that the administration needs to hold up are just two charts:

- A) The performance of the mutual fund industry over the past decade, and
- B) The number of people who never save.

The proposal being suggested has three steps (at the Public Congressional hearings they only talk about steps 1 & 2):

### Step 1 Forced IRA Enrollment

Commonly called an Automatic IRA. In this step, every person who has a job not covered by a pension or 401(k) would automatically be enrolled into an IRA by their employer and the employer would be required to redirect a portion of that person's pay (generally 5%) away from the employee and to the IRA account.

### Step 2 The Federal Government takes control

Step two lets us know what Congress is really thinking. The only investment where these IRA funds can be directed is not selected by the employee or by the employer. The forced contributions must be sent to the Social Security Administration to be managed.

To "sell" the first part of the story the Administration is relying on Teresa Ghilarducci, professor of Economic Policy at the New School for Social Research in New York. Professor Ghilarducci has already testified before Congress (October 7, 2009) and drew a good deal of attention.

Driving the second step forward has been assigned to Rep. George Miller (D-CA) Chairman, House Education and Labor Committee and recently appointed by Speaker Pelosi as Chairman, House Democratic Policy Committee. The plan has already been assigned a classic top spin name: A Guaranteed Retirement Account. (GRA)

What is step three? No one is saying publicly but, the elimination of any personal selection of investments by the IRA owner inside an IRA is the rumor that keeps coming up.

Why is this idea being proposed at all? The answer is simple:

Many in the Federal Government are concerned that someday (very soon) foreign governments and investors will stop buying the mountains of U.S. Government debt we keep piling up. Until now, generous offshore investors have willingly lined up to buy U.S. Treasury Bonds for 100 cents on the Dollar. However, U. S. debt is becoming less attractive as foreign investors have watched their bonds mature after the dollar fell 15% 20% or 30% as has happened over the past 12 years. Hence, now Congress is looking at the possibility of drilling into the last large pool of money left in the U.S.: American's retirement savings accounts.

Will the Federal Government really take over IRA accounts? When I first read of this in early 2008 I dismissed the idea. No way would Congress nationalize our retirement accounts I thought. (And of course I still hope that I'm right).

Yet, let's look at what has happened since early 2008 (under two administrations).

2008 The vertical nationalization of the banks and large brokerage firms  
One trillion takeover of Fannie Mae  
2009 The nationalization of the auto industry  
2010 Nationalization of Health Care

The early proposals circulating go as far as to identify who will get a free ride under the plan:

- State and Federal government employees
- County and Municipal employees
- The unemployed
- The underemployed
- Participants in most under-funded union plans

The proposals even contain a set of guidelines for any person who seeks to contribute to and manage their own IRA thus opting out of the Federal GRA Plan:

- Additional withdrawal penalties and taxes on their retirement plan.
- Limitations on permissible investments -- nothing that isn't "in the public interest."
- Mandatory minimum holding periods for investments
- An end to offshore investments that could protect your wealth and actually benefit investors during a time of hyper inflation.

So far, GRA is just a proposal and no vote has been scheduled; however, as the National debt spirals ever higher this is an idea that many in Congress will keep alive.

**Is there any bright spot? Yes.** So far no GRA proposal has been able to come up with a way to effectively require that an IRA owner must turn over to the Federal Government alternative assets held in an IRA. Investments made in alternative assets prior to any new regulations will likely be grandfathered to your existing Self Directed IRA account. Hence, your IRA investments in Real Estate, Real Estate Partnerships, Tax Liens, Promissory Notes, and Off Shore Investments that are made now, will likely be outside the GRA plan.

If you have been putting off starting a Self Directed IRA that will allow you to place some of your retirement funds in alternative investments, taking action today may help you maintain control of your retirement funds for decades to come.

The IRA Club will be happy to walk you through the steps to starting your own Self Directed IRA.

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