

# Pension Reform and Simplification

*Small businesses need flexibility to provide employee retirement savings plans*

---

Pension reform and the simplification of regulations that govern retirement plans has become a prominent issue for small-business owners. Complex federal rules and legal costs prevent many small businesses from starting and maintaining employee pension plans. It is essential that the federal government re-examine policies governing retirement options for small businesses and their employees.

Over the past 30 years, Congress has amended and revised the laws governing pensions at an alarming rate, adding new layers of complexity with every change. Combined with changes in the Employee Retirement Income Security Act (ERISA) in 1974, these changes have contributed significantly to a steep decline in small-business retirement plans.

Nevertheless, employers want to offer employees the tools and resources to save for retirement. Many small businesses prefer defined contribution plans like 401(k) plans. Employers can help their employees save for retirement while reducing taxable income under these vehicles, and workers can choose to deposit part of their earnings into a 401(k) account and not pay income tax on it until the money is later withdrawn in retirement. Employers may choose to, and often do, match contributions that workers make. The 401(k) account is typically administered by the employer, while in the usual "participant-directed" plan, the employee may select from different kinds of investment options.

However, the use of 401(k) plans by employers and employees is still lacking. In the smallest of firms – those with less than 10 employees – less than 9 percent of workers are covered by a 401(k)-type plan. In part, the Internal Revenue Service rules and regulations set by the Department of Labor make compliance by small businesses costly. Furthermore, having plowed earnings and savings into their enterprise, many small-business owners face a particularly hard time saving for retirement or contributing towards an employee's retirement accounts. Additionally, a general lack of expertise or knowledge of retirement policy options by small-business owners has served as a barrier. A cost-benefit calculation made based on the number of employees a retirement plan would benefit versus the start-up and per employee costs also prevent many small businesses from participating.

More attractive SIMPLE 401(k) eased, but did not eliminate, many burdensome administrative rules that exist in regular 401(k) plans. However, SIMPLE plans can save only \$10,000 (before taxes) per year, compared to the \$15,000 allowed under traditional 401(k) plans. Even though these changes are welcome and needed, they simply are not enough. Small business SIMPLE 401(k) plans need to be on equal footing in terms of contribution limits with traditional 401(k) plans.

NSBA continues to work with Congress to take further steps to simplify the current pension system. NSBA is fighting to ensure greater retirement security for millions of American workers. These reforms should provide small businesses with more flexibility with respect to the tools and resources available to provide retirement options for them and their employees. Also, contribution limits for 401(k) plans and SIMPLE plans should be made equal.