

Pension Reform and Simplification

Simplification of qualified pension rules would greatly benefit small businesses

Pension reform and the simplification of regulations that govern retirement plans has become a prominent issue for business owners. Complex federal rules and legal costs prevent many small businesses from starting and maintaining employee pension plans. Only about 30 percent of businesses that employ fewer than 500 people offer any type of retirement plans to their employees. It is essential for the survival of small businesses that the federal government re-examine its tax policy regarding pension plans.

Over the past 20 years, Congress has amended and revised the tax laws governing pension plans 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.

Having plowed earnings and savings into their enterprise, many small-business owners face a particularly hard time saving for retirement. Unfortunately, today's most popular retirement vehicles—defined contribution plans—are saddled with huge overhead costs and administrative burden.

In the 104th Congress, legislation was passed to begin the process of easing retirement plan administration for small businesses. Congress created the Savings Incentive Match Plans (often called SIMPLE plans) that eased but did not eliminate complex rules associated with “qualified” tax-advantaged plans. However, these easier-to-administer pension plans came at great cost to participants in the form of lower contribution levels.

For example, in 2006, business owners and employees who participate in easier-to-administer SIMPLE 401(k) plans can save only \$10,000 (before taxes) a 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. The very enactment of SIMPLE plans is an admission that 401(k) and similar plans were developed without the smallest businesses in mind. Why should employees of larger businesses be able to save \$5,000 more per year (tax free) than the employees of America's smallest businesses?

The House passed *H.R. 4* (the *Pension Protection Act of 2006*) on July 28, 2006, the Senate passed it on Aug. 3, 2006, and President George W. Bush signed it into law on Aug. 17, 2006. This act makes changes to the ERISA and the Internal Revenue Code that affects the operations of private pension plans. It changes the funding requirements for tax-qualified, defined-benefit pension plans and the premiums paid to the Pension Benefit Guaranty Corporation (PBGC). It also extends certain tax incentives for retirement savings, modifies tax provisions related to spending for health care, and temporarily suspends certain customs duties. Specifically, this bill makes permanent the higher contribution limits for IRAs and 401(k)s that were passed in 2001, and that will enable more workers to build larger nest eggs for retirement.

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 allow business owners to be more flexible when they compile their package. Contribution limits for 401(k) plans and SIMPLE plans should be made equal.