Pension Reform and Simplification

Small businesses need further simplification and greater flexibility from the current pension system

Problem:
When a small-business owner is considering his or her retirement needs and those of his employees, there are myriad different plans to consider with countless requirements and stipulations—all with varying outcomes. Navigating an employee pension plan can be extremely complex and cumbersome, and can lead to serious taxation issues for the small-business owner. The difficulty of establishing and running a small business pension plan often places their employees at a disadvantage compared to other workers.

- The choices are varied and complex: simplified employee pensions (SEPs), salary reduction simplified employee pensions, SIMPLE IRA plans, SIMPLE 401(k) plans, regular 401(k)s, profit-sharing plans, money purchase pension plan, Keogh plans, defined benefit plans, defined contribution plans, and employee stock ownership plans.
- Most of those plans are qualified plans subject to the minimum coverage requirements, minimum vesting standards, the actual deferral percentage test, the non-discrimination requirements, and the top heavy plan requirements.
- Over the past 30 years, Congress has amended and revised the tax laws governing pension plans at an alarming rate, adding new layers of complexity with every change.
- Complex federal rules and legal costs prevent many small businesses from starting and maintaining employee pension plans. Only about 18 percent of businesses that employ fewer than 100 people offer any type of retirement plans to their employees. It is essential that the federal government re-examine its tax policy regarding pension plans.
- Moreover, if a small business owner fails to figure this all out and gets it wrong, then the entire plan may become subject to immediate taxation and penalty. Is it any wonder that many small-businesses owners decide not to get involved in this morass?

Solution:
Combine ease of administration with equitable contributions limits for all employers and workers. The current trade-off of lower contribution limits for ease of administration is unfair to small-business owners and their employees. For instance, in 2015, business owners and employees who participate in easier-to-administer SIMPLE 401(k) plans can save only $12,500 (before taxes) a year, compared to the $18,000 allowed under traditional 401(k) plans—a more costly and difficult option for small firms.

NSBA continues to work with Congress to take further steps to simplify the current pension system. NSBA is working 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.

Learn More:
Read NSBA’s statement to the Senate Finance Committee