

House Education & the Workforce Committee

John Boehner, Chairman

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ISSUE SUMMARY

H.R. 10 Enhances Retirement Security, Closes the Retirement Savings Gap

Private pension plans -- including 401(k)s -- are crucial to retirement security for millions of Americans. Pensions now pay almost \$380 billion annually to workers -- \$63 billion more than retirement and survivor benefits paid from Social Security. Unfortunately, only half of all private sector workers have any kind of pension, and only 20 percent of small businesses offer retirement plans.

H.R. 10, introduced by Rep. Portman and Rep. Cardin, has three important goals: to encourage more employers to offer pension plans; to encourage Americans to save for their retirement, and to boost the nation's savings rate.

Private savings in our country are at historically low levels. A generation ago, Americans saved at a rate of nine percent; by last year, the rate had fallen to just 3.8 percent. The continued growth of our economy depends on our ability to invest, and our ability to invest depends on our willingness to save.

H.R. 10 addresses the retirement savings gap in a comprehensive way and makes retirement security available to millions of workers by expanding small business retirement plans, allowing workers to save more, enhancing retirement security, and cutting red tape that hampers employers who want to establish pension plans for their employees. Key highlights of the bill are included below.

Individual Retirement Accounts (IRAs)

- H.R. 10 increases the current-law \$2,000 IRA contribution limit for both traditional and Roth IRAs to \$5,000 (\$3,000 in 2001, \$4,000 in 2002, and \$5,000 in 2003), indexing it to inflation thereafter.
- The bill allows taxpayers age 50 and above to contribute \$5,000 to an IRA immediately beginning in 2001. These "catch-up" contributions will enable older taxpayers to more fully prepare for retirement.

Increased Pension Contributions

- The measure increases the limit on salary reduction contributions to 401(k)-type plans from \$10,500 today to \$15,000 by 2005.
- The bill substantially increases the limits for all types of plans and repeals the current 25 percent of compensation limit on contributions to defined contribution plans.
- H.R. 10 repeals the artificial limits placed on employers to keep them from contributing as much as financially prudent to their defined benefit plans.

Addressing The Needs of an Increasingly Mobile Workforce

- **Faster Vesting.** The measure allows workers to vest employer matching contributions sooner -- lowering the requirement from five years down to three years -- so that employees may vest more rapidly and accumulate retirement assets more quickly.
- **Increased Portability.** The average worker will hold nine jobs by the age of 32, and workers typically do not stay in any job for more than five years until age 40. H.R. 10 includes “portability” provisions that allow workers who are changing jobs to roll over retirement savings between different types of plans, including qualified plans (such as 401(k) plans), section 403(b) arrangements, and section 457 plans.

Catch-up Pension Contributions

- H.R. 10 allows workers over age 50 to contribute up to \$5,000 in “catch-up” contributions for 401(k)-type plans. This change allows them to make up for years when they weren’t employed, didn’t contribute to their plan, or otherwise were unable to save.

Encouraging Small Business Pension Growth

- H.R. 10 modernizes and streamlines pension laws to encourage small businesses to offer pension plans. It repeals and modifies a wide range of unnecessary and outdated rules and regulations.
- **Relief from PBGC Premiums.** The measure provides incentives to small businesses to offer pension plans to their workers by lowering Pension Benefit Guaranty Corporation (PBGC) premiums for new small business defined benefit plans.
- **Distribution Options.** The bill permits plans to eliminate complex and redundant distribution options that have little or no value to participants.
- **Modification of the Top-Heavy Rules.** H.R. 10 simplifies the burdensome “top-heavy” rules in numerous ways, such as eliminating certain requirements to collect data from five prior years in order to apply the rules. These changes will provide relief, especially to small businesses, and will help create new retirement plans.
- **IRS Fees.** Today, the IRS charges a business a “user fee” when the business requests a determination letter that its retirement plan is qualified under the tax laws. The bill eliminates this user fee for new retirement plans established by small businesses.
- **Reporting Simplification.** The bill allows small employers to file a simplified Form 5500 (a reporting form that must be filed with the IRS and Department of Labor).

Arming Workers with Information

- **Benefits Statements.** H.R. 10 provides more frequent benefits statements to participants in both defined contribution and defined benefit plans.
- **Disclosure.** The measure improves disclosure by requiring pension plan administrators to notify participants of significant reductions in future pension benefits, including in the context of a conversion from a traditional defined benefit pension plan to a cash balance plan. The bill also expands the missing participant program to include defined contribution plans so that individuals may locate 401(k) money they may have left with a previous employer.
- **Notice Period.** H.R. 10 extends the notice and consent period for distributions to allow individuals to plan for and request pension distribution further in advance.