PENSION PORTABILITY ANNOUNCEMENT BUILDS ON CLINTON ADMINISTRATION RECORD OF EXPANDING PENSION PORTABILITY, COVERAGE, AND SECURITY

September 17, 1996

THE CLINTON ADMINISTRATION RECORD AND AGENDA TO INCREASE PENSION PORTABILITY FOR WORKERS CHANGING JOBS: Each year, over 5 million workers who have an employer-sponsored retirement savings plan change jobs. The President's pension portability agenda helps them keep their retirement savings working for them:

- **Discouraged One-Year Wait To Begin Saving at a New Job.** Millions of workers have been forced to wait a year before they could join their new employers' pension plan. President Clinton proposed and won enactment in the new minimum wage law of a change in the law that encourages employers to stop imposing this one-year wait.

- **Guaranteed Benefits for Workers on The Move.** Reduced the vesting period from 10 to 5 years for multiemployer plans -- which cover union workers such as construction workers who frequently change jobs -- immediately guaranteeing 1 million people their benefits.

- **Secured Portability for Veterans.** Changed tax rules to ensure that veterans are not penalized and can continue their pension coverage when they return from service.

- **Proposed Expanding IRAs.** The President's balanced budget makes another 20 million families eligible for IRAs by doubling the income limits, and allows penalty-free withdrawals for education, first home purchases, and major medical expenses.

- **Proposed Helping Workers Receive Benefits After They Change Jobs or the Employer Folds:** The President proposed legislation to use the PBGC as a clearinghouse for terminated retirement savings plans to ensure that workers get the benefits they earned, even if they have long since left the job or the employer is no longer in business.

PRESIDENT CLINTON ANNOUNCED TODAY NEW TREASURY ACTIONS TO INCREASE PENSION PORTABILITY

1. **Protects Investment Options.** The President announced that the Treasury has issued guidance to ensure that workers who choose to leave their retirement savings with their former employer do not have all their good investment options taken away.

2. **Gives Employers a Green Light to Accept Rollovers.** The Treasury also took actions to make it easier for workers to take their retirement savings with them when they change jobs. The new actions could help the over 1 million workers with retirement savings who each year who take a job with a new employer that does not accept "rollovers" from a previous employer's plan.

   - The new Treasury guidance removes a major barrier to rollovers by stating that a qualified plan that accepts a rollover that proves to be invalid will not be disqualified if the plan reasonably concluded that the amount involved was eligible to be rolled over.

   - To remove another barrier, the Treasury transmitted a regulation that makes clear that accepting rollovers from new employees will generally not have an adverse impact on the plan's ability to meet nondiscrimination requirements.

PRESIDENT CLINTON'S AGENDA ALSO EXPANDS COVERAGE AND SECURITY:

PENSION COVERAGE: President Clinton is Expanding Pension Coverage to More of the 51 Million Americans Currently Without a Retirement Savings Plan:

- **New Small Business 401(k) Plan.** The President proposed and signed into law as part of the minimum wage law a new small business 401(k) plan which employers can establish with a simple one-page form to provide pensions to up to 10 million workers in small businesses who do not have pension coverage.

- **Simplified Pension Laws For Businesses of All Sizes.** The President proposed and won enactment in the minimum wage law of a dramatic simplification of the pension laws, making it cheaper and easier for employers to set up pension plans. In addition, the Administration has simplified pension regulations to encourage employers to establish and maintain plans.

- **Made Non-Profits Eligible For 401(k) Plans.** Extended 401(k) plans to tax-exempt organizations, which employ 9 million people, in the minimum wage law as the President proposed.

- **Established Retirement Savings Education Campaign.** Established in 1995 an ongoing retirement savings education campaign involving 150 private co-sponsors, and expanded it in 1996 to include a special focus on women's particular pension needs.

PENSION SECURITY: President Clinton Is Enhancing Pension Security So Retirement Savings Are There When They Are Needed:

- **Protected the Pension Benefits of More Than 40 Million Americans.** Won enactment of the President's Retirement Protection Act in 1994 to protect from underfunding the benefits of more than 40 million workers and retirees in traditional pension plans.

- **Protected Government Employees' Savings from Orange County-Style Fiascos:** Won enactment as part of the minimum wage bill of a law requiring state and local government retirement savings to be held in trust so that employees do not lose their savings if the government declares bankruptcy, as Orange County recently did.

- **Recovered Nearly $10 Million in Savings for Workers and Retirees.** As a result of the Labor Department's ongoing nationwide enforcement effort to protect retirement savings in defined contribution -- 401(k) -- plans, nearly $10 million has been recovered for workers.

- **Will Continue to Oppose Corporate Pension Raids.** The President will continue to oppose any legislation that encourages pension reversions, such as that in the GOP budget that would have allowed corporations to raid $15 billion from pension plans.

- **Proposed Prompt Action on Misuse of Pension Funds.** The President has proposed legislation to require full-scale audits of large pension plans and require plan administrators and accountants to report promptly serious misuse of pension funds.

- **Proposed Strengthening Protection of 9 Million Union Workers' Savings:** Proposed doubling the maximum level of annual benefits guaranteed under multi-employer plans. For 30-year workers, level would be increased from $5,850 -- set in 1980 -- to $12,870.

NEW TREASURY PENSION PORTABILITY ACTIONS
September 17, 1996

President Clinton announced today that the Treasury Department has issued two items of administrative guidance and transmitted a proposed regulation to enhance pension portability. Every year, about 5 million workers covered by employer retirement plans change jobs. The new actions will make it easier for workers to take their retirement savings with them when they change jobs and ensure that those workers who chose to leave their savings with their former employer do not have all their good investment options taken away.

1. PROTECTING INVESTMENT OPTIONS

Problem: Some Employers Take Away All Good Investment Options From Their Former Employees. Sometimes workers want to leave their retirement savings in their former employers' retirement savings plan, such as when a worker takes a job with an employer that does not have a retirement plan or has a break in employment. Currently, some 401(k) or other defined contribution plans that give active employees a wide range of investment choices require that former employees' accounts be invested in a money market or similar fund. This type of limitation restricts the departing employees' investment options and may force them to make a hasty decision to take their retirement money out of a tax-deferred savings plan.

Solution: The Treasury Issued Administrative Guidance To Ensure Former Employees Don't Have All Their Good Investment Options Taken Away. The guidance makes clear that a plan that makes a broad range of investment choices available to active employees may not limit former employees to investment in a money market fund.

2. GIVING EMPLOYERS THE GREEN LIGHT TO ACCEPT ROLLOVERS

Problem: Workers Often Cannot Take Their Retirement Savings With Them When They Change Jobs. Workers often want to take their retirement savings with them when they change jobs and consolidate their savings. Yet each year over one million workers with retirement savings move to a new job that does not accept "rollovers" from a previous employer's retirement savings plan. Today, 50% of workers in 401(k) plans are in plans that do not accept rollovers of retirement savings from new employees. Employers do not accept rollovers for at least two reasons. One reason is that many fear their plan may be disqualified or heavily penalized for inadvertently accepting funds that prove to have been ineligible for rollover, either because the distributing plan was not tax-qualified or because the rollover was not completed within the 60-day period often required. Another reason employers may not accept rollovers is their concern that accepting them will adversely affect the plan's compliance with nondiscrimination requirements that apply to plan participants generally. These nondiscrimination tests prohibit plans from providing benefits in ways that discriminate in favor of highly paid employees.

Solution: The Treasury Actions Give Employers The Green Light to Accept Rollovers:

- The Treasury has issued administrative guidance stating that a qualified employee plan that accepts a rollover that proves to be invalid will be protected from disqualification if the plan reasonably concluded that the amount involved was eligible to be rolled over.

- The Treasury transmitted a proposed regulation that makes clear that accepting rollovers from new employees, including those not yet eligible to participate in the new employer's plan, will generally not have an adverse impact on the plan's ability to meet the nondiscrimination requirements.

NEW PENSION PORTABILITY ACTIONS ALLOW WORKERS TO CONTINUE TO SAVE WITH FORMER EMPLOYERS' PLANS

Example. A woman worked for many years with a large company that provided a 401(k) plan with various investment options for its employees. She was able to save $50,000 towards her retirement in the 401(k) plan, and chose to have most of this money in a broad-based equity fund, which had earned an average real rate of return of 7% annually for the past 10 years.

After many years with the company, she recently changed jobs to a new company that does not offer a pension plan to its employees.

Current Law. Although current law provides that an employer cannot impose a "significant detriment" on former employees who wish to leave retirement savings with their former employer, some employers have been known to limit former employees' investment options to a money market fund, even though broader investment opportunities are provided to active employees.

For an employee who has been investing retirement savings in an equity fund or an aggressive fixed income fund, this can be a significant detriment to continuing to save through the old employer's plan, even when a new employer does not provide a plan, and may cause employees to withdraw and dissipate their retirement savings.

New Guidance. The old employer will not be able to take away all the former employee's good investment options and limit the former employee to investment only in a money market fund, if broader investment alternatives are provided to active employees. The former employee will continue to have reasonable investment opportunities so that her retirement savings will continue to grow.

NEW PENSION PORTABILITY ACTIONS INCREASE ABILITY TO TRANSFER & CONTINUE RETIREMENT SAVINGS FROM JOB-TO-JOB

Example. A woman has worked several years for a company that has a 401(k) plan and she has built up a balance of $20,000 in her retirement savings account.

She takes a new job with a company that also offers a 401(k) plan. She would like to start saving immediately and would like to transfer her retirement savings from her old employer's plan to her new employer's plan so she can consolidate and keep building her savings.

Current Law. Discourages a new employer from allowing employees to save from the first day on the job and also discourages "rollovers" -- allowing workers to transfer their retirement savings from one employer's plan to another and consolidate their savings.

The new employer imposes a one-year waiting period to join its pension plan. It will also not allow rollovers from other plans because it is concerned that if the rollover is invalid, the new company's entire pension plan might lose its tax-qualified status -- which could have a disastrous impact on both the plan participants and the employer.

The company also has reason to be concerned about the impact a rollover may have on its ability to provide maximum savings opportunities for its current employees under nondiscrimination rules designed to protect low-and-moderate-wage employees.

New Guidance. Under the new Treasury guidance, the company will be better able to accept rollovers without fear of the rollover having a detrimental impact on its current plan.

Because it reasonably believes the rollover to be valid, the new employer knows its plan cannot be disqualified, even if the rollover turns out to have been improper. Moreover, under the new guidance, the rollover will not hurt the plan's ability to meet nondiscrimination tests for existing plan participants.

Starting in 1999, under nondiscrimination rules contained in the Minimum Wage Bill signed by President Clinton, the new company will no longer have an incentive impose a waiting period before a new employee can start to save for retirement because the new law ensures that such contributions will not reduce savings opportunities for current plan participants.

PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT

1. NEW SMALL BUSINESS 401(k) PLAN

2. EXPANDED IRAs

3. INCREASED PENSION PORTABILITY

4. ENHANCED PENSION SECURITY

5. PREVENT PENSION RAIDING

April 11, 1996

Two Page Summary of President Clinton's Retirement Savings and Security Act

PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT

Proposal Summary

Millions of Americans do not have adequate retirement savings and are worried about their retirement and being a burden on their children. The President's Retirement Savings and Security Act would empower more Americans to save for their retirement by expanding pension coverage, portability, and protections.

- **Expands Pensions** to help the 51 million working Americans -- nearly half of private-sector workers -- not currently covered by an employer-provided plan save for their retirement.
- **Increases Portability** by removing the obstacle course facing many workers when they change or lose their job and want to bring their retirement savings with them and keep saving.
- **Enhances Protections** so hard-working Americans do not have to worry whether their retirement savings will be there when they need them.

PRESIDENT CLINTON'S PROPOSAL MEETS THESE CHALLENGES WITH A 5-PART PLAN:

1. <u>New Small Business 401(k) Plan -- To Expand Pension Coverage</u>: The lack of a simple pension plan for small businesses has led to a disturbing statistic: while 76% of workers in large businesses have employer-provided pensions, only 24% of workers in small businesses do. The President's plan offers small businesses a simple small business "401(k) plan," called the NEST, that could expand pension coverage to up to *10 million workers*:

   - **$5,000 Tax-Free Contributions.** Workers could save up to $5,000 a year tax-free through automatic payroll deductions.

   - **Employers Contribute 3% of Salary or 1% Plus a Match of Up To 5% of Salary.**

   - **One-Page Form.** Cuts through the red tape with a simple, one-page form without complicated employer filing, calculations, or testing.

   - **100% Portable.** All contributions would be immediately vested and fully portable.

   The President's plan expands coverage in many other ways as well: it simplifies 401(k) plans for *all* businesses as recommended by Vice President Gore's Reinventing Government initiative, makes the 9 million employees of non-profit organizations eligible for 401(k) plans, enables relatives who work in a family business to earn their own retirement benefits, and repeals unreasonable limits on benefits for certain disabled and low- and middle-income union and state and local government employees.

2. <u>Expanded IRAs -- To Increase Pension Coverage and Portability</u>: Deductible IRAs are generally available only to families making under $50,000, and can be withdrawn penalty-free only after age 59½. The President's proposal makes IRAs more attractive and expands eligibility to *20 million more families*:

   - **Allows Withdrawals for Education and Training, First Home Purchases, Major Medical Expenses, and During Long-Term Unemployment:** Allows penalty-free IRA withdrawals for these major life expenses to encourage more families to save.

   - **Doubles Income Eligibility:** More middle class families -- especially those with two earners -- would be eligible for this expanded IRA that reduces taxes by up to $1,120 a year. The proposal doubles the income limits from $50,000 to $100,000 for married couples, and from $35,000 to $70,000 for single taxpayers.

3. <u>Increases Pension Portability</u>: Workers who change jobs and want to take their retirement savings with them and keep saving currently face a multi-faceted obstacle course. The President's proposals could help *over 5 million workers each year* who have an employer pension plan and change jobs:

- **Takes Away 1-Year Wait To Save At a New Job:** Millions of workers are forced to wait 1 year before they can enter their new employer's pension plan. The President's proposal changes a law that encourages private employers to impose a 1-year waiting requirement, and eliminates the waiting period for new federal employees to make pre-tax contributions to the Thrift Savings Plan.

- **Green Light for Employers to Accept Rollovers:** Today, 50% of workers in 401(k) plans are in plans that do not accept rollovers from new employees. The Treasury will issue new rules to make it easier for employers to accept rollovers into their plans.

- **Expanded IRAs and New Small Business 401(k) Plan Will Increase Portability:** Expanded IRAs and the new small business 401(k) plan are both fully portable.

- **Ensures that Workers Receive Benefits After They Change Jobs or the Employer Folds:** Ensures workers get the benefits they earned, even if they have long since left the job or the employer is no longer in business, by using the PBGC as a clearinghouse for terminated plans.

- **Secures Portability for Veterans:** Changes tax rules to ensure that veterans who serve their nation are not penalized and can continue their pension coverage when they return from service.

- **Guarantees Benefits for Workers on the Move:** Reduces the vesting period from 10 to 5 years for multiemployer plans -- which cover union workers such as construction workers who frequently change jobs -- to ensure they don't lose their benefits if they've worked for 5 years.

4. <u>Enhances Pension Protection and Security</u>: The President's proposal enacted in 1994 has reduced pension underfunding for the first time in a decade, protecting the benefits of 40 million workers and retirees in traditional pension plans. In 1995, the Labor Department launched an initiative to protect savings in 401(k) plans from misuse, recovering over $7 million for approximately 9,000 workers.

- **Requires Prompt Action on Misuse of Funds:** Requires plan administrators and accountants to report promptly serious misuse of pension funds, with fines of up to $100,000.

- **Protects Government Employees' Savings from Orange County-Style Fiascos:** Requires state and local government pension plans be held in trust so that employees do not lose their savings if the government declares bankruptcy, as Orange County recently did.

- **Strengthens Protection of 9 Million Union Workers' Savings:** Doubles the maximum level of annual benefits guaranteed under multiemployer plans from $5,850 per worker -- the level set in 1980 -- to $12,870 per worker.

5. <u>Prevents Pension Raiding</u>: In the 1980s, companies raided more than $20 billion from over 2,000 pension plans covering 2.5 million workers and retirees. Legislation in 1990 curbed pension raiding by imposing a stiff excise tax of up to 50% on these pension reversions.

- **Oppose Proposals that Allow Corporate Pension Raids:** The Administration will continue to oppose any legislation that encourages pension reversions, such as the one in the GOP budget.

- **Report on Pension Reversions:** To ensure that current rules continue to prevent the abuse common in the 1980s, requires the Labor Department to report regularly on activity in this area.

BACKGROUND MATERIALS

BACKGROUND:
New Small Business 401(k) Plan

PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT: *EXPANDING PENSION COVERAGE*

Millions of Americans Do Not Have a Pension Plan and Are Worried About Retirement. Even with Social Security, a couple earning $50,000 a year needs to have saved about $225,000 by retirement to maintain their standard of living over a 25-year retirement. Yet 51 million workers are not covered by an employer pension plan and millions are not saving on their own.

- **Half Do Not Have a Pension.** 48% of private sector workers -- 51 million Americans -- are *not* covered by an employer-provided retirement plan. Even fewer workers in small businesses are covered. Three-quarters of workers in small businesses with fewer than 100 employees are not covered by an employer retirement plan.

- **Wary of Contributing to an IRA.** Many Americans are not currently eligible for tax-deductible IRAs, and many of those who are eligible are reluctant to make contributions because they may need the funds to pay for their children's education, to buy their first home, or to support their family if they lose their job and can't find a new one.

The President's Proposal Would Expand Coverage and Empower Workers to Save for Retirement.

1. **Creates a Small Business "401(k)" Retirement Plan To Expand Pension Coverage For Up To 10 Million Workers In Small Businesses.** The complexity and cost of traditional retirement plans discourages many small businesses from providing their workers with pensions. Even those existing plans designed for small business -- SEPs and SARSEP -- are complicated, and don't give low- and moderate-income workers adequate incentives to save for their retirement. As a result, only 1 of every 4 workers at a small business with under 100 employees is covered by an employer retirement plan. By contrast, 3 out of every 4 workers in firms with 1,000 or more employees are covered.

   The President's proposal, developed as part of Vice President Gore's Reinventing Government initiative, creates a new simple, voluntary "401(k)" retirement plan for small businesses with up to 100 employees, called the National Employee Savings Trust (NEST). This plan would make it easy for a small business to offer a generous retirement plan. *As many as 10 million small business workers could gain pension coverage under this plan:*

   - **One-Page Form.** This new small business 401(k) plan would cut through red tape with a simple, one-page form. It has no complicated employer filing, calculation or testing requirements. It also simplifies administration by allowing employers to deposit contributions for all employees in IRAs at a single financial institution, rather than having to send payments to many institutions.

- **Workers Could Contribute Up to $5,000 Tax-Free.** And unlike an IRA, they could do it automatically through regular paycheck deductions. All workers who are at least 21 years old and who have earned at least $5,000 from the employer for two consecutive years would be eligible to contribute.

- **Employer Contributions.** Employers who choose to offer this new small business plan would contribute 3% of an employee's pay or would contribute 1% of pay plus a generous match of up to 5% of the employee's pay. The match would be 100% on the first 3% of pay and at least 50% on the next 2% of pay.

  - For example, a worker who earns $60,000 and contributed $5,000 would get an employer contribution of up to $3,000 under the matching plan.

  - A worker who earns $40,000 and contibuted $2,000, would receive an employer contribution up to $2,000 under the matching plan.

- **100% Portable.** All contributions would be immediately vested (nonforfeitable) and fully portable. New employees could rollover their existing retirement savings from a qualified plan into their small business 401(k) NEST, and workers leaving the employer could transfer their NEST savings into an IRA.

2. **Makes It Easier for <u>All</u> Employers to Provide Their Employees with Pensions.** Current pension tax rules are complicated, discouraging employers of all sizes from offering retirement plans. The President's plan simplifies these rules, eliminating unnecessary tests and limits to make it easier for more employers to provide retirement plans and making it easier for workers to save.

   - **Simplifies 401(k) Plans to Reduce Costs.** 401(k) plans are individual account plans that permit an individual to deduct a portion of his or her pre-tax income every year, invest it, and pay no taxes on the money until it is withdrawn at retirement. The employee's contribution is frequently matched by the employer, and the employee often can direct the investment of the assets.

     However, many employers are discouraged from offering 401(k) plans by the current 401(k) rules that require plan sponsors to engage in complicated and sometimes costly testing of plans annually to determine whether lower income workers are receiving their fair share of benefits. The President's proposal, developed as part of Vice President Gore's Reinventing Government initiative, would replace this complicated testing with simple "safe harbors" that enable all workers to receive employer contributions to their 401(k) plan, while still assuring that lower income employees are covered.

   - **Lets Non-Profit Organizations Offer 401(k) Plans.** The President's proposal would allow all tax-exempt organizations to sponsor 401(k) plans for their employees, instead of the more limited plans now available to them. Non-profit organizations employ nearly 9 million people who could be provided 401(k) plans.

- **Enables Family Members in Family Businesses to Earn Their Own Retirement Benefits.** The proposal eliminates the "family aggregation" restrictions on pensions for family members so that spouses and children who work in the same or related businesses can earn their own retirement benefits.

- **Provides Workers, Such as Teachers, Disabled Police Officers, and Construction Workers, With the Benefits They Deserve.** Current tax laws limit pension benefits for union members in multiemployer plans and state and local government employees to the average salary in their three highest consecutive salary years. This unfairly and significantly reduces the benefits of disabled workers, such as police officers and fire fighters disabled early in their careers, of union workers in cyclical industries in which wages may vary widely from year to year, and of lower-income, long-term government employees, such as teachers and janitors.

  The President's proposal would change the law to eliminate these unreasonable limits on the benefits these workers earned.

- **Changes Rules that Prevent Middle-Income Americans from Saving More.** The proposal replaces the current seven-part definition of "highly compensated employee" with a simple new rule that will make larger benefits available to more middle-income Americans and simplify administration of the retirement plans.

3. **Simplifies Pension Rules, Directing Savings to Retirees Rather than Accountants.** The President's pension package would also simplify the pension system and reduce the administrative costs of maintaining retirement plans for all employers through a variety of proposals, including:

   - Repealing the requirement that people begin receiving pension distributions at age 70 1/2 even if they are still working.

   - Allowing more small defined contribution plans by exempting these plans from the 50 employee minimum participation rule.

   - Allowing workers to get more benefits by simplifying the calculation of compensation-based limits on benefits.

   - Eliminating the complex combined limit on benefits and contributions for employees covered by both defined benefit and defined contribution plans of the same employer.

BACKGROUND:
Expanded IRAs

PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT:
EXPANDED IRAs TO INCREASE COVERAGE AND PORTABILITY

IRAs Are the Most Portable Retirement Savings Vehicle: With the average worker now changing jobs several times during their careers, it is important that workers be able to bring their retirement savings with them when they change jobs and to keep on saving from one job to the next. Because IRA accounts are 100% portable and contributions are made by individual workers regardless of their employers, IRAs are especially important to workers changing jobs.

Yet Many Cannot Make Deductible Contributions or Are Discouraged from Making Them: Yet today millions of Americans are not eligible to make tax-deductible contributions to an IRA. Others who are eligible are reluctant to do so because they worry that they will need the money before they retire -- to buy a home, pay for their children's college education or their parents' nursing home care, or to support their family if they lose their job -- and will not be able to get access to it.

Problem: **Many Cannot Make Deductible Contributions Because of Restrictive Income Limits.** Deductible IRAs are currently available only to families with incomes under $50,000 or who are not covered by an employer-provided pension plan. Eligibility for deductible IRAs is currently phased-out for single taxpayers with incomes between $25,000 and $35,000, and for married couples with incomes between $40,000 and $50,000.

Proposal: **The President's proposal expands eligibility to 20 million more families:**

- **Doubles the income limits -- making 20 million more families eligible:** The President's proposal doubles the income limits, making more middle class families -- especially those with two incomes -- eligible for this expanded IRA. It doubles the income limits for making tax-deductible IRA contributions from $50,000 to $100,000 for married couples, and from $35,000 to $70,000 for single taxpayers. It indexes these thresholds as well as the $2,000 maximum annual contribution amount, for inflation.

- **Expansion of IRAs can help part-year employees.** Among those who would be helped by the higher income limits are those workers who move from one job to another and are covered by an employer-provided pension for only part of the year. Because these workers are covered by a plan for part of the year, they are subject to the IRA income limits, even though they may not have the opportunity to save through an employer plan for most of the year. The higher income limits for tax-deductible IRAs will enable more middle-income workers who change jobs to save.

- **Gives people a choice.** The President's proposal would give eligible taxpayers the choice of contributing to a traditional tax-deductible IRA or to a new Special IRA, to which contributions would not be tax-deductible but earnings could be withdrawn tax-free after at least 5 years.

Problem: **Penalties for early withdrawals discourage any from vi g.** Under current law, IRA savings can be withdrawn penalty-free only after age 59 1/2. Before age 59 1/2, withdrawals generally are subject to a 10% penalty tax.

Proposal: **The President's proposal makes IRAs more attractive by allowing early withdrawals for education, first home purchases, major medical expenses and during long-term unemployment.** To encourage saving, the President's proposal would allow penalty-free withdrawals for major life expenses, such as education and training, first-time home purchases, and financially devastating medical expenses such as nursing home care for a parent. This proposal was first pioneered by former Treasury Secretary Lloyd Bentsen in the Senate in the 1980s, who cosponsored this bipartisan legislation with Senator William Roth (R-DE). The President first proposed this expanded IRA in 1994 as part of the Middle Class Bill of Rights, and has included it in every Administration budget since then.

- **Allows IRA investment in education of workers and their children.** To promote the education needed in the new economy, the President's proposal would allow penalty-free withdrawals for the education of workers and their families and would permit investment of IRA funds in State pre-paid tuition programs.

- **Provides access to retirement funds for workers in transition.** The President's proposal provides a financial safety net for workers in transition by eliminating the 10% penalty tax on early IRA withdrawals for workers who are unemployed and receive unemployment compensation for 12 weeks or more, allowing workers to use retirement savings to pay for expenses during these periods of transition.

BACKGROUND:
Portability Reforms

PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT: *INCREASING PENSION PORTABILITY*

About 35 million Americans have retirement accounts in defined contribution plans, such as 401(k) plans, in which employers maintain individual accounts on behalf of their workers. In the last decade, the number of defined contribution plans has exploded. By 1991, defined contribution plans accounted for 86 percent of employer-provided retirement plans and covered 55 percent of workers covered by plans. With the average worker now changing jobs many times during their career, defined contribution plans enable workers to keep their savings as they change jobs because the account balances belong to the workers. However, the 5 million workers who change jobs each year and who participate in retirement savings plans may still face *an obstacle course* if they want to take their savings with them and continue to save.

Problem: **Starting a new job is often the best time to begin saving, but many workers are forced to wait a year or more after starting a new job to begin saving through the new employer's retirement plan.** Currently, many plans do not permit workers to make 401(k) contributions or receive employer matching contributions until they have worked for the employer for at least a year. Some employers require the waiting period because they are concerned that allowing new employees to participate could cause the plan to fail "discrimination" tests that compare benefits provided to high-paid employees with benefits provided to other employees. But because of waiting periods, workers may not get into, or may lose, the habit of saving for retirement through payroll deduction.

Proposal: **President Clinton's plan would help workers save from the first day on the job by encouraging employers to eliminate waiting periods.** The proposal would encourage employers to allow new hires to participate in retirement plans by excluding non-highly paid new employees from the nondiscrimination tests.

<u>**But reform must start at home**</u>. **The President's plan would allow new federal government employees to begin saving for retirement from their first day on the job.** It would permit new federal employees to begin making pre-tax contributions to the Thrift Savings Plan when they are hired, rather than having to wait six months to one year.

Problem: **Employees with retirement savings plans and who change jobs often want to take their accounts with them when they leave, so they can continue to add to them to save for retirement.** While rollovers of retirement payments to IRAs are fairly routine, opportunities to roll payments over into new employer plans are limited because many plans don't accept these rollovers. Only about 50% of participants in 401(k) plans are in plans that accept rollovers from previous employers. Some employers don't take rollovers because they fear that it will require special contributions for the new hires, or that their plan may be heavily penalized or disqualified for inadvertently accepting funds ineligible for rollovers.

Proposal: **President Clinton's plan will increase opportunities for workers to roll over their retirement savings to their new employer's plan.** The proposal will ensure that inadvertent errors in determining whether an amount was eligible for a rollover would not disqualify the plan that accepted the rollover, and that acceptance of rollovers from new hires who are not yet eligible for contributions under the plan will not adversely affect the plan's nondiscrimination tests or impose additional contribution requirements.

These changes build on recent administrative efforts to make it easier for workers to move their funds when they switch jobs, such as recently issued rules that allow workers to waive a 30-day waiting period if they know they want to move the funds sooner. The rules also make it easier to apply statutory rights allowing workers to roll over their account balances directly to another retirement plan (or an IRA) and clarify the rules for borrowing money from a plan.

Problem: **Workers and employers -- particularly small businesses -- need simple retirement savings options that encourage workers to keep saving even when traditional pension plans are too complex or expensive.** Currently, only about one-fourth of employees who work for small businesses have retirement savings plans, and only some of the employees eligible to make tax-deductible IRA contributions take advantage of this savings opportunity. Yet IRAs and IRA-based employer-sponsored plans are fully portable and easy to move, and are especially valuable for younger workers who may frequently change jobs.

Proposal: **The President's plan would make 20 million more families eligible for IRAs, make IRAs available for job-related uses such as training, and offer small businesses a new, simple "401(k)" plan that is fully portable.**

- Expands the availability of tax-deductible IRAs to middle-income workers, including those unemployed for part of a year or move from one job to another and are covered by a pension plan for only part of a year.

- Permits an employee to tap retirement savings, without the 10 percent early withdrawal penalty tax, for education and training, first home purchases, major medical expenses, or support during extended unemployment.

- Creates a new small business "401(k)" plan called the National Employee Savings Trust (NEST) -- a new fully-portable voluntary retirement savings plan for small business that has no red tape and no complicated employer filing, testing, forms or calculations.

Problem: **Retiring workers need to be able to tap all their vested retirement savings at each of their jobs.** Every year, about 5 million American workers covered by pension plans change jobs. Many of them leave their retirement accounts with their old employer. But if the old employer terminates the plan, and moves, changes its name, or folds, it is hard for employees to find their savings at retirement. The Retirement Protection Act helps workers find their benefits under traditional pension plans, but not defined contribution plans.

Proposal: **The President's proposal will help workers locate retirement savings in defined contribution plans when they retire, even if the company they worked for has moved or gone out of business.** The proposal makes the PBGC's "missing participant" program, now in effect for traditional defined benefit pension plans, available to defined contribution plans, such as 401(k) plans. Workers will be able to find their benefits through the PBGC because employers terminating their defined contribution plans will be able to transfer funds and the names of participants to the PBGC, or provide the PBGC with information on where the funds are located.

Problem: **Veterans serving their country need to be able to continue their retirement savings when they return to their former jobs.** Congress enacted legislation in 1994 requiring employers to allow returning veterans to continue in pension plans and make up for contributions they could have made while in the service. However, conforming tax law changes were not made, and will generate confusion and potential problems when the law becomes effective in 1997.

Proposal: **President Clinton's plan will help returning veterans by enacting tax rule changes that ensure that veterans get their benefits under the new law.**

Problem: **Many union workers who are in jobs that traditionally involve working for many employers, such as construction workers, now have to wait 10 years before their pension benefits are guaranteed.** Multiemployer plans, which cover 8.7 million workers, are extremely portable. Workers move from employer to employer and from job to job while remaining covered by a single pension plan. However, under current law, a worker must be in the plan for 10 years before being guaranteed benefits.

Proposal: **President Clinton's plan would ensure that employees in multiemployer collectively bargained plans who work for 5 years would get benefits -- *over 1 million workers will become vested immediately.***

BACKGROUND:
Pensions Security

PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT: *ENHANCING PENSION SECURITY*

President Clinton's Retirement Savings and Security Act builds on the Administration's accomplishments in enhancing pension security to make sure that workers' savings are there when needed. The Administration's **Retirement Protection Act** signed into law in 1994 has reduced pension underfunding for the first time in a decade, protecting the benefits of over 40 million workers and retirees in traditional pension plans. In 1995, the Labor Department launched an initiative to protect savings in 401(k) plans from misuse, recovering over $7 million for 9,000 workers. *But more needs to be done.*

Problem: **We need to do a better job of protecting the savings of the 22 million participants in 401(k) plans.** While the vast majority of 401(k) plans are administered honestly, responsibly, and safely, investigators have found that some employers are using or "borrowing" their employees' contributions. Employees lose earnings on borrowed contributions; and in some cases, the "borrowed" contributions have simply been stolen from the employees.

Actions: **Labor Department enforcement efforts are increasing 401(k) security.** In 1995, the Labor Department launched a nationwide enforcement effort in response to an increasing number of complaints about 401(k) plans. Over 650 investigations have been opened, with over $7 million returned to plans covering 9,000 workers. In addition to these civil cases, to date 35 criminal cases have resulted in the criminal prosecution of 2 companies and 9 individuals. Already there have been 4 guilty pleas, resulting in almost $100,000 being returned to employees. The Department's enforcement program continues to receive and investigate complaints.

New rules will ensure that employee savings are protected. To reduce both incentives and opportunities to "borrow" 401(k) savings, the Labor Department has proposed regulations requiring that these savings be transmitted to plan trustees sooner.

The Voluntary Payback Program encourages employers to restore any delinquent contributions. This program, announced in March, allows employers who agree to restore all delinquent employee contributions plus lost earnings to their plan within six months to avoid civil and criminal sanctions. Those engaged in the most egregious conduct will not be able to take advantage of the program.

Proposal: **President Clinton's Retirement Savings and Security Act would further enhance 401(k) security by proposing faster reporting of problems and more complete audits.** Plan administrators and auditors are critical to maintaining the security of money in pension plans. Yet under current law, even if a significant problem is discovered, there is no requirement to report the problem until the plan's annual report is filed -- frequently more than a year after the event took place. And audits can be of "limited scope," which excludes assets held by regulated institutions, such as banks.

- **Faster reporting.** The bill would require both plan administrators and accountants auditing plans who discover fraud or other egregious ERISA violations to report them to the Department of Labor promptly. Plan administrators who fail to comply with this requirement may be subject to fines of up to $100,000. Plan accountants, who in many respects are the first line of defense against fraud, will be subject to sanctions if they fail to report such offenses.

- **Broader audits.** The bill would eliminate the limited scope audit option, meaning that every dollar of savings will be required to be accounted for in a plan audit. Accountants would use existing information from financial institutions and would not be required to duplicate this work.

Problem: **We need to enhance the security of the 8.7 million participants in multiemployer pension plans.** The level of benefits guaranteed by the Pension Benefit Guaranty Corporation for a multiemployer plan has not increased since 1980. The current guarantee is a maximum of $5,850 annually, which falls below the promised benefit level in almost every case. The guarantee is essential to protecting all workers in these plans, especially the 1.9 million workers in underfunded plans.

Proposal: **President Clinton's Retirement Savings and Security Act would more than double the guarantee level for multiemployer plans.** The proposal would increase the annual guarantee level to account for inflation since 1980. The maximum annual guarantee for a retiree with 30 years of service will increase from $5,850 to $12,870.

- **More benefits guaranteed.** With the new guarantee level, three-quarters of all plan participants in future insolvencies of multiemployer plans would have 100% of their benefit guaranteed.

- **Solvency of system maintained.** The proposal would restore the value of the multiemployer guarantee to its original level, while maintaining the program's financial solvency and without raising premiums.

Problem: **We need to make certain the retirement savings of public workers are secure.** A municipal bankruptcy, such as occurred in Orange County, CA, can put the retirement savings of public workers in jeopardy. When Orange County declared bankruptcy, the retirement savings of thousands of workers were put within the potential reach of the county's creditors. Unfortunately, municipal bankruptcies, while rare, do occur; public workers who participate in state and local government deferred compensation plans deserve to know that their savings will not be taken to pay for the errors of their employers.

Proposal: **President Clinton's retirement savings and security plan would require the savings of workers under state and local government plans to be held in trust.** The President's proposal would require that all retirement savings of state and local government employees be held in trust, protected from misuse and from the government's creditors.

- **Safety of savings guaranteed.** Over 1 million state and local government employees participate in deferred compensation plans. Their savings, unlike funds in regular 401(k) plans, are not held in trust and are subject to employer misuse, being restricted or taken by creditors in bankruptcy. Under the President's proposal, these savings will have to be held in trust; no longer will municipal and state employees have to be concerned that their individual retirement savings -- which increasingly are being used to supplement traditional pension plans -- could be wiped out by their employer's insolvency.

BACKGROUND:
Preventing Pension Raiding

PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT:
PREVENTING PENSION RAIDING

Pension Raiding Has a Long and Unfortunate History. During the 1980s, when pension assets grew with a rising stock market, companies took over $20 billion from over 2,000 pension plans covering 2.5 million workers and retirees. In many cases, companies took money from an "overfunded" plan while allowing significant underfunding in another plan. In other cases, the same plan from which money was taken is now significantly underfunded. One company took $232 million from a pension plan in 1986; that plan is now underfunded by $27 million, putting the pension benefits of participants in jeopardy. Another company took $120 million from a plan now underfunded by $72 million. Just this year, a Pennsylvania steelmaker that had taken over $4 million from its plan for white collar workers and executives in 1986 went out of business and terminated its steelworkers plan with almost $4 million in underfunding.

Current Law Has Virtually Stopped Pension Raiding. In 1990, Congress responded to the reversion crisis by enacting a 50% excise tax which companies must pay if they wish to take money from a pension plan for most reasons other than payment of retiree health benefits. The law is working well; 1980's style abuses are gone.

But the Republican Congress Wants to Restart the Raids to Pay for Tax Cuts. In the Balanced Budget Act, the Republicans insisted on giving corporations a new opportunity to raid pension funds. Based on their numbers, they were expecting over $15 billion to come out of pension plans. This could have affected the pensions of *almost 4 million workers and retirees* in 6,000 plans over the next five years.

President Clinton Fought Pension Raids. President Clinton told the Republicans he would veto the Balanced Budget Act if it encouraged pension raiding. The Republicans insisted on their provision. President Clinton vetoed the bill, saying "people who work hard and save for retirement ought to be able to retire with dignity . . . This bill would give companies the green light to raid pension funds and put those retirements at risk."

The President's Proposals Would Protect Workers' Pension From Corporate Raids.

1. **Continue to Oppose Any Legislation That Allows Corporations to Raid Pensions.** President Clinton will continue to stand firm against pension raiding. Pension plans that are overfunded today can quickly become underfunded as interest rates change. With 80 million "Baby Boomers" nearing retirement age, we need to *increase* savings, not deplete them.

2. **Requires Reports on Any Pension Reversions.** While it appears that current law has stopped the abuses of the 1980s, with the stock market again at record highs corporations are again looking to put pension assets to general corporate use. This proposal would require the Labor Department to report on reversions at least twice a year to the President, Congress and the public. That way, we will all know if raiding starts again, and if the current law needs to be strengthened.

Clinton Administration Progress On Retirement Savings And Security

CLINTON ADMINISTRATION PROGRESS IN HELPING AMERICANS SAVE FOR RETIREMENT

1993-94: **Won Enactment of the Retirement Protection Act.** In December 1994, Congress passed legislation the Administration had submitted more than a year earlier that protects the benefits of more than 40 million American workers and retirees in traditional pension plans by increasing funding of underfunded pension plans and by enhancing the Pension Benefit Guaranty Corporation's (PBGC) early warning and enforcement powers. Pension underfunding has been reduced for the first time in a decade -- from $71 billion in 1993 to $31 billion in 1994; the PBGC deficit has dropped by 90%, from almost $3 billion to $300 million.

1993-present: **Protecting Workers' Pensions in Corporate Transactions.** In 35 cases with major corporations, almost $14 billion has been added to underfunded plans covering over 1 million workers and retirees through the "Early Warning Program." In addition, more than $20 million has been saved for retirees that would have been taken from pension plans in corporate restructurings.

1994: **President Clinton Announced the Middle Class Bill of Rights, Including Expanded IRAs.** This packet of targeted tax cuts, including the expanded IRAs, has been included in each of the President's balanced budget plans.

1995: **Initiated a Nationwide Enforcement Effort to Protect 401(k) Retirement Savings.** To protect workers against pension fraud, the Department of Labor has:

- Opened over 650 investigations involving possible mishandling of 401(k) contributions, recovering over $7 million for 9,000 workers.

- Launched the "Pension Payback Program," a voluntary program whereby eligible participating employers have until September 7 of this year to restore delinquent employee contributions to 401(k) plans, thereby avoiding potential federal criminal and civil penalties.

- Proposed a regulation to shorten the number of days an employer can hold employee 401(k) contributions before putting them in an account subject to federal protections.

- Submitted to Congress legislation that would, among other things, require plan administrators and accountants who discover fraud and other egregious ERISA violations to report them promptly to the Department of Labor.

1995: **Successfully Opposed Republican Efforts to Fund Tax Cuts by Allowing Corporations to Take Over $15 Billion Out of Pension Plans.** Successfully opposed Republican efforts to fund tax cuts by allowing corporations to raid their pension plans. The Republicans expected that their proposal would have permitted corporations to remove more than $15 billion from pension plans, jeopardizing retirement security of millions of workers.

1995: **Proposed a Significant Simplification of the Pension System.** The President's Pension Simplification Proposal, developed as part of Vice President Gore's Reinventing Government initiative and announced at the White House Conference on Small Business in June 1995, would enable businesses and other entities of all sizes, but particularly small businesses, to more easily make tax-advantaged savings programs available to their employees. The Administration plan includes the National Employee Savings Trust (NEST), a new "401(k)" plan for small businesses. The NEST minimizes administrative and compliance costs, and eliminates the need for employer involvement with the Government. The NEST is specifically designed to encourage retirement savings by middle- and low-income workers, not only the highly paid, without complicated forms or expensive calculations.

Ongoing: **Issuing Regulations Enhancing Pension Portability.** The Treasury has issued rules allowing workers to waive the 30-day notice period before they can roll over retirement savings to another retirement vehicle, including an IRA, and making it easier to directly move retirement account balances from one employer to another or to an IRA. As part of these rules, Treasury clarified that an outstanding loan to a plan can be transferred to a new plan that is willing to accept it, enhancing pension portability and allowing workers in transition to preserve loaned amounts as retirement savings.

1995: **Issued Interpretation Making It Easier for Employers to Participate in Retirement Savings Education.** Recognizing that employers are a vital link in providing education to workers, the Labor Department, working with the SEC, is providing more explicit guidance to employers on the kinds of investment information and materials that can be provided without constituting "investment advice."

1995-present: **Joined with 150 Private-Sector Organizations in a Public Education Campaign to Increase Awareness of the Need to Save for Retirement.** The campaign has produced and distributed two brochures to help people understand the need to save and direct them to sources of retirement planning information, produced print public service announcements, and gained wide media coverage.

Illustrative Examples of the Impact of the President's Proposals on Families and Individuals.

SAVING FOR RETIREMENT AND COLLEGE MADE EASIER FOR FAMILIES

THE ADMINISTRATION'S EXPANDED IRA PROPOSAL

A married couple both work, have two children, and a combined income of $55,000 per year. They are currently covered by a 401(k) plan at work. They would like to put away some additional money in an Individual Retirement Account, in part to save for their sons' college education.

Current Law:

But current law forbids them to make tax-deductible contributions to an IRA because they are covered by a qualified pension plan and have combined earnings of more than $50,000. Moreover, if they were to contribute to an IRA, they would not be able to use the money for their sons' education without paying a 10% withdrawal penalty.

Under the President's proposal:

- This family would be able to save, tax-free, up to $4,000 each year in an IRA.
- In addition, they would be able to withdraw money from the IRA, without any penalty, for their sons' education.
- If they wanted to be sure of covering the full cost of future education, they could use after-tax contributions to a new kind of IRA to invest in a state-sponsored pre-paid tuition plan for their younger son and pay no tax when education expenses were paid later under the pre-paid tuition plan.

SAVING FOR RETIREMENT FROM THE FIRST DAY ON THE JOB; USING AN IRA TO CUSHION UNEMPLOYMENT

A married worker whose family income is $30,000 a year is laid off from his job. The worker had a 401(k) plan with his old employer, and his wife had been putting $2,000 a year into an IRA. The worker really wants to keep his 401(k) retirement savings intact, but as his unemployment dragged on, he and his wife would have liked to be able to use some of the money in the IRA account to tide them over. After being out of a job six months, the worker finds a new job. The old employer will allow the worker to roll over his 401(k) balance into a new employer's plan, but the new employer doesn't allow rollovers, and moreover won't let the worker start saving his own money until he's been working for a year.

Current Law:

Current law forbids use of the IRA account unless the worker pays a 10% withdrawal penalty. In addition, current law discourages employers from allowing rollovers and from allowing new workers to start saving for retirement from the first day on the job.

Under the President's proposal:

- The worker and his family would have been able to use the money in the IRA without penalty to tide them over after 12 weeks on unemployment.
- The new employer will be encouraged to allow rollovers and to allow new employees to start saving from their first day on the job.
- Federal government employees will be able to save for retirement as soon as they're hired, rather than having to wait six months to a year.

PROTECTING RETIREMENT SAVINGS

A worker was employed by the same employer for 10 years, and contributed to a 401(k) plan for all those years. He was also covered by a defined benefit plan. For the first 8 years, the company did well, and the defined benefit plan was substantially overfunded. But during the last two years, the company experienced real financial difficulty. The employer started diverting his employees' 401(k) contributions to his personal account, rather than transferring them to a bank quickly, as had been his previous practice. After two years of struggle, the employer went out of business without replacing the money in the workers' 401(k) accounts, and terminated both the defined benefit and defined contribution plans. The worker found a new job and moved across the country, but he is worried about his pension from the defined benefit plan and fears that his 401(k) money may be gone forever.

Current law:

The worker's pension from the defined benefit plan is safe, but the delay between when the employer started diverting money from the 401(k) plan and when he went out of business could well mean the money cannot be recovered.

Under the President's proposal:

- The defined benefit pension will continue to be safe; the President has vetoed and will continue to oppose Republican efforts to allow companies to raid pension plans for general corporate purposes.

- The 401(k) account would be better protected, since the plan administrator would have been required to report promptly to the Department of Labor the employer's practice of misusing the 401(k) money. This report would prompt a Department of Labor investigation and restitution of the funds before the employer went out of business.

- Both the current defined benefit and proposed defined contribution Missing Participant Programs, run by the Pension Benefit Guaranty Corporation (PBGC), would help the employee keep track of his retirement benefits from the terminated plans.

SAVING FOR RETIREMENT IN A SMALL BUSINESS

THE ADMINISTRATION'S SMALL BUSINESS "401(k) PLAN"

A mother and daughter own a travel agency with 10 employees including several women who make $25,000 a year. Despite their small size, they provide health care coverage for all of their workers and want to provide an employer-provided pension plan as well.

However, after surveying several possibilities, they find that the complexity of the forms, the administrative costs, and the need for specialized accounting services are too great. As a result, their workers are among the 76% of workers in small companies who do not have an employer-provided pension.

Current Law:

Because current law does not provide for a simple, easy to administer pension plans for small businesses, this travel agency provides no pension coverage. Moreover, because the owners are related, their own contributions would be limited.

Under the President's proposal:

- This family-owned travel agency could set up a small business 401(k) for their workers with a simple 1-page form, and no complicated employer-filing or testing requirements.

- If the owners contribute 3% of each employee's salary -- or 1% and agree to match employee pre-tax contributions of up to 5% of the employee's pay -- the owners could set up a small business "401(k) plan," which will allow each employee to contribute up to $5,000, pre-tax, to a completely portable Individual Retirement Account. The owners will have no annual reporting, complex testing, "top-heavy" rules, and will not need to get IRS determination letters.

- All of their workers could have their contributions to their small business 401(k) made automatically through regular pay check deductions.

- The mother and daughter could each fully participate in a retirement savings plan, making establishing such a plan for their employees much more attractive.

PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT

Proposal Summary

Millions of Americans do not have adequate retirement savings and are worried about their retirement and being a burden on their children. The President's Retirement Savings and Security Act would empower more Americans to save for their retirement by expanding pension coverage, portability, and protections.

- **Expands Pensions** to help the 51 million working Americans -- nearly half of private-sector workers -- not currently covered by an employer-provided plan save for their retirement.
- **Increases Portability** by removing the obstacle course facing many workers when they change or lose their job and want to bring their retirement savings with them and keep saving.
- **Enhances Protections** so hard-working Americans do not have to worry whether their retirement savings will be there when they need them.

PRESIDENT CLINTON'S PROPOSAL MEETS THESE CHALLENGES WITH A 5-PART PLAN:

1. <u>New Small Business 401(k) Plan -- To Expand Pension Coverage</u>: The lack of a simple pension plan for small businesses has led to a disturbing statistic: while 76% of workers in large businesses have employer-provided pensions, only 24% of workers in small businesses do. The President's plan offers small businesses a simple small business "401(k) plan," called the NEST, that could expand pension coverage to up to *10 million workers*:

   - **$5,000 Tax-Free Contributions.** Workers could save up to $5,000 a year tax-free through automatic payroll deductions.

   - **Employers Contribute 3% of Salary or 1% Plus a Match of Up To 5% of Salary.**

   - **One-Page Form.** Cuts through the red tape with a simple, one-page form without complicated employer filing, calculations, or testing.

   - **100% Portable.** All contributions would be immediately vested and fully portable.

   The President's plan expands coverage in many other ways as well: it simplifies 401(k) plans for *all* businesses as recommended by Vice President Gore's Reinventing Government initiative, makes the 9 million employees of non-profit organizations eligible for 401(k) plans, enables relatives who work in a family business to earn their own retirement benefits, and repeals unreasonable limits on benefits for certain disabled and low- and middle-income union and state and local government employees.

2. <u>Expanded IRAs -- To Increase Pension Coverage and Portability</u>: Deductible IRAs are generally available only to families making under $50,000, and can be withdrawn penalty-free only after age 59½. The President's proposal makes IRAs more attractive and expands eligibility to *20 million more families*:

   - **Allows Withdrawals for Education and Training, First Home Purchases, Major Medical Expenses, and During Long-Term Unemployment**: Allows penalty-free IRA withdrawals for these major life expenses to encourage more families to save.

   - **Doubles Income Eligibility:** More middle class families -- especially those with two earners -- would be eligible for this expanded IRA that reduces taxes by up to $1,120 a year. The proposal doubles the income limits from $50,000 to $100,000 for married couples, and from $35,000 to $70,000 for single taxpayers.

3. <u>Increases Pension Portability</u>: Workers who change jobs and want to take their retirement savings with them and keep saving currently face a multi-faceted obstacle course. The President's proposals could help *over 5 million workers each year* who have an employer pension plan and change jobs:

- **Takes Away 1-Year Wait To Save At a New Job:** Millions of workers are forced to wait 1 year before they can enter their new employer's pension plan. The President's proposal changes a law that encourages private employers to impose a 1-year waiting requirement, and eliminates the waiting period for new federal employees to make pre-tax contributions to the Thrift Savings Plan.

- **Green Light for Employers to Accept Rollovers:** Today, 50% of workers in 401(k) plans are in plans that do not accept rollovers from new employees. The Treasury will issue new rules to make it easier for employers to accept rollovers into their plans.

- **Expanded IRAs and New Small Business 401(k) Plan Will Increase Portability:** Expanded IRAs and the new small business 401(k) plan are both fully portable.

- **Ensures that Workers Receive Benefits After They Change Jobs or the Employer Folds:** Ensures workers get the benefits they earned, even if they have long since left the job or the employer is no longer in business, by using the PBGC as a clearinghouse for terminated plans.

- **Secures Portability for Veterans:** Changes tax rules to ensure that veterans who serve their nation are not penalized and can continue their pension coverage when they return from service.

- **Guarantees Benefits for Workers on the Move:** Reduces the vesting period from 10 to 5 years for multiemployer plans -- which cover union workers such as construction workers who frequently change jobs -- to ensure they don't lose their benefits if they've worked for 5 years.

4. <u>Enhances Pension Protection and Security</u>: The President's proposal enacted in 1994 has reduced pension underfunding for the first time in a decade, protecting the benefits of 40 million workers and retirees in traditional pension plans. In 1995, the Labor Department launched an initiative to protect savings in 401(k) plans from misuse, recovering over $7 million for approximately 9,000 workers.

- **Requires Prompt Action on Misuse of Funds:** Requires plan administrators and accountants to report promptly serious misuse of pension funds, with fines of up to $100,000.

- **Protects Government Employees' Savings from Orange County-Style Fiascos:** Requires state and local government pension plans be held in trust so that employees do not lose their savings if the government declares bankruptcy, as Orange County recently did.

- **Strengthens Protection of 9 Million Union Workers' Savings:** Doubles the maximum level of annual benefits guaranteed under multiemployer plans from $5,850 per worker -- the level set in 1980 -- to $12,870 per worker.

5. <u>Prevents Pension Raiding</u>: In the 1980s, companies raided more than $20 billion from over 2,000 pension plans covering 2.5 million workers and retirees. Legislation in 1990 curbed pension raiding by imposing a stiff excise tax of up to 50% on these pension reversions.

- **Oppose Proposals that Allow Corporate Pension Raids:** The Administration will continue to oppose any legislation that encourages pension reversions, such as the one in the GOP budget.

- **Report on Pension Reversions:** To ensure that current rules continue to prevent the abuse common in the 1980s, requires the Labor Department to report regularly on activity in this area.