MEMORANDUM

TO: TOM FREEDMAN, MARY L. SMITH

FROM: DREW HANSEN

RE: PENSION REFORM PROPOSALS

DATE: AUGUST 19, 1997

PROBLEM

Many Americans have inadequate pension coverage:

- Over 50 million workers (almost half the workforce) have no pension coverage at all.
- Only 25% of small-business employees are covered by pensions.
- The average American changes jobs seven times in a lifetime.
- Many younger Americans believe that Social Security will not be available when they retire.
- The recent bankruptcy of Color Tile Inc. jeopardized employee pension benefits, as 83% of the company's 401(k) assets were invested in the company itself.

RECENT REFORMS

- **SIMPLE (Savings Incentive Match Plan for Employees).** Enacted in PL 104-188, SIMPLE is a retirement plan that allows businesses of 100 workers or less to create a 401(k) plan eligible for various tax advantages.
- **Reforms in the Budget Agreement.** The budget agreement contained several pension-related reforms:
  - A qualified retirement plan will no longer lose tax advantages if it accepts rollover contributions from a previous plan that turned out to be tainted or disqualified for tax breaks.
  - Businesses will no longer have to file a report with the Labor Department when they make major changes to their pension plans.
  - Stay-at-home spouses will be allowed to make tax-deductible contributions to an IRA.

- The involuntary "cash-out" trigger (the size of pension accounts that are taken out in a lump sum) is raised from $3,500 to $5,000 (the "cash-out" saves employers the responsibility and paperwork of distributing a small pension fund in monthly payments).
- No more than 10% of 401(k) contributions can be placed in company stock or assets without the employee's permission.

PROPOSED REFORMS

A number of bills currently before Congress would further reform the pension system:

- **Jeffords (R-VT) and Bingaman (D-NM) S. 957.** The bill would create Pension ProSave, enabling employers to open retirement accounts for their employees which would be maintained by separate private companies. Employers would enter into a voluntary agreement to contribute at least 1% of employee salaries. Workers could contribute up to $6,000 per year. Benefits would vest immediately and would be maintained when an employee changes jobs.
- **Graham (D-FL) S. 889.** The bill would expand portability for pensions (including pensions for government workers who enter private jobs) and make it easier for small businesses to set up pension plans by proposing an employee payroll deduction that would go toward financing an IRA administered by a third party.
- **Moseley-Braun (D-IL) and Murray (D-WA) S. 320, Kennelly (D-CT) H.R. 766.** These bills offer protections for pensions for women. They would require spousal consent for the cash-out of a 401(k) (a provision included in the Senate version of the budget agreement but dropped in the final agreement). They would also ban the practice of "integration" (employers decreasing employee pension benefits by a portion of that employee's income from Social Security) and ensure that benefits accrued during the course of a marriage that lasted more than five years would be split evenly between the partners.
- **Johnson (R-CT) and Pomeroy (D-ND) HR 1656.** This bill would limit the regulations that deter small businesses from setting up pension plans and establish portable IRAs.
- **Boxer (D-CA) S. 107, 108.** S. 107 would provide for equal benefits to either spouse if one dies (instead of half benefits); S. 108 would require 401(k) plans to disclose investments to participants automatically (currently investments are disclosed if the employee asks for the information).
- **Gregg (R-NH) S. 883.** This bill would create a new voluntary pension plan for companies with 100 employees or less. It would eliminate some restrictions on transferring benefits if workers changed jobs.

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