



AMERICAN BENEFITS COUNCIL

THE PORTMAN-CARDIN BILL PROMOTES SMALL BUSINESS RETIREMENT PLAN COVERAGE

Most employees that work for large and mid-sized businesses are fortunate enough to have a workplace retirement program. And while we have made progress in recent years in expanding small business pension coverage – thanks in part to reforms in past Portman/Cardin legislation – a majority of small business workers still lack a workplace retirement plan. As with their past efforts, the latest Portman-Cardin bill includes many proposals designed specifically to continue the work of expanding retirement plan coverage for small business workers.

- **Expanding and Improving SIMPLE Plans.** The Portman-Cardin bill would make improvements to SIMPLE retirement plans, so that more small businesses are encouraged to adopt these easy-to-use retirement plans. SIMPLE plans have achieved a great deal of success in expanding small business retirement plan coverage – the number of SIMPLE IRAs alone has nearly tripled from 121,000 at the beginning of 1999 to 350,000 in 2002 while the number of small business workers covered by these plans has increased from 502,000 to over 1.5 million during that time. The SIMPLE reforms in the Portman-Cardin bill would build on this success. First, the Portman-Cardin bill would allow small employers to make additional, nonelective contributions to these plans on behalf of all workers, thereby increasing the benefits these plans provide. Second, the Portman-Cardin bill also would conform the rules for matching contributions made to SIMPLE IRAs and SIMPLE 401(k)s, resolving an impediment to greater use of SIMPLE 401(k)s.
- **Improving Simplified Employee Pensions (SEPs).** SEPs are retirement plans that, like SIMPLE plans, can involve fewer administrative burdens for small businesses that sponsor them. The Portman-Cardin bill would improve the rules governing SEPs in a number of ways. First, the bill would allow contributions to be made to SEPs in a level dollar amount (e.g., \$5,000 per year) for each employee (in addition to contributions based on a percentage of compensation as under current law). The bill also would conform the definition of “compensation” used in connection with the SEP rules, so that it would be consistent with the definition used for other retirement plan purposes. In addition, the bill would allow SEPs to be established and maintained for domestic workers for whom current rules create significant barriers to retirement plan coverage.
- **Making Our Retirement System Simpler and More Attractive.** Today, the administrative burdens and associated costs of establishing and maintaining a retirement plan stand as a major impediment to small business plan sponsorship. The Portman-Cardin bill is designed to reduce unnecessary administrative burdens, including those that are particularly onerous for small businesses. For example, the Portman-Cardin bill would give the Treasury Department and IRS authority to issue simplified reporting rules for small business retirement plans, provide intermediate sanctions in the case of administrative or other errors and improve the self-correction program for retirement plan sponsors. The Portman-Cardin bill also contains a variety of proposals to revitalize defined benefit pension plans, an area where small business coverage is particularly lacking, including discounted PBGC premiums for small business pension plans, removal of inequities in PBGC insurance coverage of small business plans, and changes to ensure that the deduction rules for plan contributions do not unfairly punish small businesses that want to offer both defined contribution and defined benefit plans for their workers.