AMERICAN BENEFITS COUNCIL

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American Benefits Council Urges Senators and Representatives to Make Retirement Savings Provisions of EGTRRA Permanent

Work on the pension reform bill (S. 1783/H.R. 2830) is progressing and conferees will soon be making decisions that will affect the retirement security of millions of Americans for years to come. The American Benefits Council strongly urges you to proactively support including permanence of the retirement savings provisions of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) in final pension reform legislation.

Permanence of the EGTRRA retirement savings provisions, which are generally set to expire at the end of 2010 unless Congress acts, would provide needed certainty for American workers and employer-sponsored retirement plans in several key areas. Since the Council's members, who include the nation's largest retirement plan sponsors and leading experts in the field of retirement security, either sponsor directly or provide services to retirement and health plans covering more than 100 million Americans, we are keenly interested in a stable and vibrant employer-sponsored retirement system. Permanence of these provisions was included in H.R. 2830 but not S. 1783.

There are many retirement provisions in EGTRRA that are vitally important to American workers including:

- Small business incentives for sponsoring retirement plans and significant administrative relief (the number of participants in 401(k) plans increased 23 percent between 2000 and 2004, from 42 million to more than 54 million)

- Encouragement of low income Americans to save for retirement through the Saver's Credit (a credit on the worker's income tax for a portion of the first $2,000 contributed to an IRA or employer-sponsored retirement plan)

- Increased retirement savings portability (EGTRRA removed existing barriers that prevented workers from being able to take their retirement savings with them to another plan when they switched jobs, particularly when they moved between employment sectors)

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- Increased retirement savings opportunities (EGTRRA increases the IRA limit to $5,000, from $2,000, eliminated the 25 percent of compensation cap on employee and employer contributions to defined contribution plans and increased the 401(k) savings limit to $15,000, from $10,500)

- Catch-up contributions for age 50 plus workers (especially important for baby-boomers, women who have been out of the workforce, and those who have simply fallen behind on their retirement savings)

Failure to make these provisions permanent soon will have several significant effects. Plan sponsors will face uncertainty about future legal requirements, possibly making them less likely to establish new plans or include elements that may sunset. They will be forced to prepare communications to workers on the upcoming changes which workers may find confusing, resulting in potentially reduced retirement savings. In addition, significant investments will need to be made to retool administrative systems in anticipation of expiring provisions (again, resulting in potential loss of money available for retirement savings).

Although some have commented on the cost of these provisions, the revenue cost of the EGTRRA retirement savings provisions is money well spent to encourage retirement savings and the future retirement security of American workers. In addition, it is important to note that most of the revenue cost associated with making these provisions permanent will be returned to the U.S. Treasury when future retirees take the money out of the IRAs and retirement plans. Most contributions to employer-sponsored plans (and traditional IRAs) result in a tax deferral, instead of a tax exclusion. Much of the deferred tax revenue will return to the government when it is most needed – when the baby boomers retire.

Again, the Council urges you to make known to key pension negotiators your support for the permanence of these vital provisions. If the Council can provide any additional information, please contact Jan Jacobson, Council director, retirement policy, at jjacobson@abcstaff.org, or Lynn Dudley, Council vice president, retirement policy, at ldudley@abcstaff.org. Both can be reached by phone at (202) 289-6700.