
Inside the Beltway, pro-retirement proposals pile up

By Editorial Staff Thu, Jul 19, 2018

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Yet another legislative proposal has been added to the growing pile of bills in both the House and Senate that are aimed at narrowing the “coverage gap”—the fact that about half of all full-time private-sector US workers have no 401(k)-type plan at work—and get more lower-income and minority Americans saving for retirement.

(Will any of them be enacted this year? With less than four months to go before the mid-term election, it doesn't seem likely. On the other hand, retirement security—except the small matter of Social Security—appears to be one of the few issues that can still attract bipartisan support.)

To incentivize small employers to offer retirement savings plans to employees, Senators Susan Collins (R-ME) and Mark Warner (D-VA) have introduced the SIMPLE Plan Modernization Act (S.3197), which is also supported by AARP. The act is intended to help small business employees and their employers adopt SIMPLE Plans.

A SIMPLE (Savings Incentive Match Plan for Employees) IRA plan lets small-company employers contribute toward their employees' and their individual retirement accounts. Employees may make salary reduction contributions to the IRA and the employer is required to make either matching or non-elective contributions.

There are relatively few employer-sponsored IRA plans in use. According to a January 2017 report from the Investment Company Institute, 42.5 million US households had an IRA in 2016. Of those, 7.2 million households (5.7% of US households) had a SIMPLE IRA, SEP IRA or SAR SEP IRA through an employer.

The proposed legislation would:

- Raise the contribution limit for SIMPLE plans to \$15,500 from \$12,500 (halfway between current SIMPLE plans and traditional 401(k)s) for businesses with one to 25 employees, with a corresponding increase in the catch-up limit to \$4,500 from \$3,000.
- Encourage businesses with 26 to 100 employees to transition to 401(k)s by raising employers' SIMPLE Plan mandatory employer contribution requirements by one percentage point if they decide to elect the higher contribution limits.

- Allow for a reasonable transition period for employers who hire additional employees above 25.
- Make the limit increases unavailable if the employer has had another defined contribution plan within the past three years (to encourage businesses that already have qualified plans to retain them).
- Modernize SIMPLE plan form filing requirements and modify the transition rules from SIMPLE plans to traditional plans to facilitate and encourage such transitions.
- Direct Treasury to study the use of SIMPLE plans and report to Congress on such use, along with any recommendations.

Congress established SIMPLE (Savings Incentive Match Plan for Employees) retirement plans in the Small Business Job Protection Act of 1996 to encourage small businesses to provide their employees with retirement plans.

Then, as now, retirement plans among small employers were, and continue to be, scarcer than among medium and large employers. While these smaller businesses had access to tax-favored retirement savings plans (including traditional 401(k)s), those plans are more expensive to administer.

Businesses with 100 or fewer employees may currently create SIMPLE retirement savings accounts for their employees, so long as the employers do not have another employer-sponsored retirement plan.

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