U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

http://finance.senate.gov

For Immediate Release
Friday, Dec. 2, 2005

Grassley Highlights Worker Savings, Pension Preservation Provisions in Senate Pension Bill

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today said the pension reform legislation advancing through Congress contains common-sense provisions to boost workers' savings, such as encouraging companies to automatically enroll their workers in 401(k) plans, bolster retirement plan diversification rights, and simplify rules to encourage employers to offer pension plans.

"We need a national red alert on retirement savings," Grassley said. "The national savings rate is at an all-time low and fewer companies offer pension plans than in decades. Congress needs to enact changes that encourage more employers to offer pension benefits and protect the existing benefits of millions of employees. We have to help make sure that a secure retirement is a reality, not a pipe dream, for American workers."

Grassley is a key author of the *Pension Security and Transparency Act of 2005* (S. 1783), which the Senate passed on Nov. 16 on a vote of 97 to 2. The House has not yet passed its version of the bill, which contains similar savings provisions, such as the automatic 401(k) enrollment provision. Pension-boosting provisions in the Senate's *Pension Security and Transparency Act of 2005* include:

Automatic 401(k) enrollment. The bill encourages employers to offer the automatic enrollment option by helping them meet rules ensuring equal treatment of highly compensated and non-highly compensated employees. Under the bill, employers' plans have to include at least 70 percent of non-highly compensated employees versus highly compensated employees, and must treat both categories equally in terms of contributions made and matched.

The bill also gives companies some protection from lawsuits if the investment options chosen are "reasonable." Under current law, some companies are reluctant to use automatic enrollment for fear that employees whose investments lost money would sue. As a result, the companies use ultra-conservative investment options that offer very little return for workers.

Now, 19 percent of large employers automatically enroll workers, according to the global human resources services firm Hewitt Associates. Grassley said experts estimate a significant increase in automatic enrollment if the pension bill is enacted.

"Millions of employees have access to 401(k) plans but many of them don't enroll," Grassley said. “That’s too bad because these plans offer a good way to save money. They let workers set aside a percentage of their salary on a pre-tax basis. Companies often match a percentage of the employee’s contribution. That match is really a salary increase. The automatic enrollment option will make sure workers don’t miss out on a very good benefit. But if they feel they can’t afford to set aside any money, they’ll still be able to opt out.”

Simplification of pension options for small businesses. The bill allows small businesses to establish a combined defined benefit-401(k) plan (or “DB-K,” as it has been called). The plan would be governed by one document with specific accounting for the defined benefit and defined contribution portions of the trust. Under current law, small employers cannot offer a combined plan, and the complexity of maintaining separate plans discourages many of them from offering robust pension benefits to their employees. “Small businesses create most jobs in this country,” Grassley said. “It’s important for those jobs to come with retirement benefits as much as possible. The DB-K plan will allow small business owners to provide their employees with the best of both worlds at the same time – a more traditional defined benefit pension and a 401(k) savings plan."

Greater diversification rights for employees with retirement plan funds invested in company stock. The bill requires companies to allow employees to diversify from company stock. “Employees shouldn’t be forced to invest their retirement money in employer stock," Grassley said. “We need to make sure we never see another Enron, where employees were stuck with company stock in their pension plans that became worthless and unable to diversify that stock.”

Additional IRA contributions for individuals working at bankrupt companies with indicted officials. This would allow for additional individual retirement account (IRA) contributions for workers of companies that have gone bankrupt because of illegal behavior by senior executives. “For example, employees of an Oregon utility company lost their pension holdings when Enron acquired their company and converted their holdings into Enron stock that became worthless,” Grassley said. “This provision would help to protect employees in such a situation.”

Independent investment advice. The Senate bill provides incentives for employers to offer independent investment advice to their employers. “Workers need more access to high-quality investment advice,” Grassley said. “That means advice provided by an independent advisor free from conflicts of interest.”

Waiver of early distribution tax for public safety officers. Public safety officers – the policemen, firefighters, and first responders who risk their lives to keep citizens safe – often retire early because of the dangerous and physically demanding nature of their work. The bill would make sure these public servants aren’t penalized for a lifetime of work by providing an exception from the penalty tax on early distributions from retirement plans. (In the case of public safety officers, the bill would lower the threshold age for the general exception from 59 ½ to 50.) “The police officers, firefighters and first responders who work their entire lives to protect us should be able to rest easy in retirement knowing that their retirement funds are protected from unwarranted taxes,” Grassley said.

Faster vesting of employees in defined contribution plans. The bill ensures that employees will vest more quickly in the contributions that their employers make to their 401(k) plans. In particular, the bill would shorten vesting periods from 5 years to 3 years. “In today’s mobile economy, workers change jobs more frequently then they did even a decade ago,” Grassley said.

“Therefore, it’s critical that they vest in their retirement plans more quickly if they are going to build up the funds necessary for a secure retirement. The faster employees can start saving, the better for their secure retirement prospects.”

Encouraging annuitization of retirement accounts. Today, many employers do not offer employees the option to receive an annuity from their 401(k) plan when they retire. As such, employees often cash out of their 401(k)s without any plan for how to live off the money in retirement. Employers are often afraid to offer annuities because of outdated and unclear rules that require the “safest available” annuity to be offered. The bill would clarify the law in this area by conforming the annuity rules to the normal fiduciary protections in ERISA. “Uncertainty causes plan sponsors to avoid options that may be beneficial for employees,” Grassley said. “Annuities are good for workers because they guarantee a lifetime stream of income in retirement.”

Apart from the pension bill, Grassley also is advancing the extension of a tax credit for low-income savers. The *Economic Growth and Tax Relief Reconciliation Act* of 2001 provided a temporary nonrefundable credit for contributions made by eligible taxpayers to certain qualified retirement plans (e.g., 401(k), 403(b), annuity, SIMPLE, SEP, traditional and Roth IRAs) through the end of 2006. The maximum annual contribution for the credit is $2,000. The credit rate depends on the adjusted gross income of the taxpayer. Only taxpayers with AGI of $25,000 or less ($50,000 for married couples) are eligible for the credit. The credit is in addition to any deduction or exclusion that would otherwise apply with respect to the contribution. The new tax relief bill approved by the Senate last month extends that provision through the end of 2009. Nationwide, 5.5 million taxpayers – including 95,889 taxpayers in Iowa – benefit from this provision.
