

## ***Section by Section of H.R. 5160:***

### **Help Small Businesses Offer Savings Plans for their Employees**

- *Eliminate the restriction on a SIMPLE plan rollover (SIMPLE Plan Portability)*
  - Under H.R. 5160, SIMPLE plan participants would be eligible to rollover their retirement assets like other plan participants. This provision would reduce leakage and reduce complexity by permitting participants to rollover SIMPLE distributions to traditional IRAs and qualified plans at their discretion.
- *Allow for a mid-year SIMPLE plan termination*
  - A business owner should be allowed to move from a SIMPLE plan to another retirement plan during the year. Currently, SIMPLEs can only operate on a calendar year basis. This means that a business owner must wait until the beginning of the year to move to a new retirement plan. H.R. 5160 would remove this barrier and authorize small business owners to make mid-year changes to their SIMPLE plans.
- *Remove the higher penalty on early SIMPLE IRA distributions*
  - Premature distributions made prior to age 59 ½ from SIMPLE IRAs are subject to a 25 percent excise tax (unless otherwise exempt) during an employee's first two years of participation and 10 percent thereafter. H.R. 5160 would repeal the 25 percent premature distribution excise tax imposed on SIMPLE IRAs, so that premature distributions from SIMPLE IRAs would be subject to the customary 10 percent excise tax. By conforming the SIMPLE IRA premature distribution penalty to the penalty applicable to other retirement plans, including SIMPLE 401(k)s and IRAs, SIMPLE IRA participants would be subject to the same rules as participants in any other qualified retirement savings vehicle.
- *Raise the annual contribution limit for SIMPLE plans to the same level as 401(k) plans.*
  - Since SIMPLE IRAs require employers either to match employee contributions or to make a non-elective contribution with immediate vesting, small business owners who offer SIMPLE plans today provide their employees with substantial retirement benefits that potentially exceed the benefits offered by a business with a traditional 401(k) plan. Under current law, however, SIMPLE plans have a lower annual contribution cap than traditional IRA plans. We see no reason to continue a policy that discriminates against the small business owner, particularly when the expectation that benefits being provided to the employee are the same or better than what is found in traditional 401(k) plans. H.R. 5160 would raise the annual contribution limit for SIMPLE plans to the same level as 401(k) plans.

- *SIMPLE 401(k) parity for additional non-elective employer contributions*
  - Currently, small businesses are not permitted to make any additional contributions to their employees' SIMPLE accounts. Allowing an employer to make additional non-elective contributions to the SIMPLE plan (up to 10 percent) for either non-elective or matching plans would allow small businesses to take advantage of a good year or as an ongoing benefit for employees.
  
- *Create automatic IRAs*
  - Automatic IRAs would provide a relatively simple and cost-effective way to increase retirement security for the estimated 71 million workers whose employers do not sponsor plans. H.R. 5160 would create an automatic IRA plan that would be voluntary on the part of the small business owner, but would require participating owners to automatically enroll employees in the plan. The automatic IRA plan could be administered by any institution that is authorized to be a custodian for IRAs, such as banks, mutual fund companies, brokerage firms, or similar entities. Reporting and administrative obligations would be streamlined, and participating small business would be eligible for enhanced tax credits provided under our legislation.
  
- *Expand the Small Employer Pension Plan Start-up Cost Credit for small business owners*
  - To encourage more small businesses to enroll their employees in retirement plans, our bill would increase the start-up credit to 50 percent of the start-up costs for new plans and would allow for a one-time \$25 tax credit for every employee who is enrolled in the savings program.
  
- *Codify SIMPLE IRA and 401(k) operational and compliance issues*
  - Currently, several rules that govern the SIMPLE IRA and 401(k) are different. Our legislation would make several technical corrections so that the two regimes become fully compatible.