

**Retirement Policy Recommendations
to the Bush Administration Transition Team**

**Developed by the American Benefits Council
(formerly APPWP – The Benefits Association)**

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Bipartisan Pension Reform

Bipartisan pension reform legislation enjoyed truly overwhelming support from members of the 106th Congress and was endorsed by more than 90 organizations representing groups as diverse as schoolteachers, small and large employers, organized labor, the financial services industry and state officials. The legislation (H.R. 1102), introduced by Representatives Rob Portman (R-OH) and Ben Cardin (D-MD), was cosponsored by 200 House members. It passed the House twice as a stand-alone bill (each time with 401 votes) and twice as part of larger tax relief legislation. The Senate Finance Committee unanimously approved parallel legislation and the full Senate passed the bill twice as part of larger measures.

This bipartisan pension legislation would extend the benefits of employer-sponsored pension coverage to more American workers and would give individuals new tools to save for their retirement. The legislation achieves these objectives by restoring the dollar limits on pension plan and IRA contributions and benefits, simplifying pension regulations, updating pension laws to keep pace with modern business and workforce trends, enhancing pension portability, providing new incentives to small employers to start plans, and removing barriers to sound pension funding. The revenue estimate for these comprehensive reforms is a rather modest \$18 billion over five years.

Bipartisan pension legislation stands as one the key unfinished priorities of the 106th Congress and would offer the incoming Bush Administration a concrete and bipartisan legislative achievement early in its term. Moreover, as the more difficult work of reforming Social Security proceeds, prompt enactment of bipartisan pension legislation would demonstrate the Bush Administration's serious attention to Americans' retirement needs.

Actions Recommended

- The Council urges the Bush Administration to include the elements of the bipartisan pension legislation in its tax proposal to Congress and to offer its full support for the bipartisan Portman/Cardin pension legislation that will be re-introduced early in the 107th Congress.
- We also recommend that the Bush Administration seek enactment of this legislation early in 2001.

Social Security Reform

Recent efforts to restructure the Social Security system in order to address its long-term financial stability have foundered. Notably, they failed to take into account the profound interplay between the Social Security system and our nation's voluntary employer-sponsored retirement system. Failure to analyze the effects of any reform proposal on the employer-sponsored system could result in a step forward for Social Security but a step backward for our pension system and thus for retirement security as a whole. Few are aware, for example, that today the private, employer-sponsored pension system pays out more in retirement benefits than Social Security does. In order to be successful, reform of the Social Security system must take into account its effects on the other vitally important components of our three-legged retirement income stool – employer-sponsored pensions and personal savings.

Actions Recommended

- The Council urges the Bush Administration to analyze carefully the effects of any Social Security reform plan on the private employer-sponsored retirement system and to avoid any proposal that would harm or undermine this system.
- To that end, we recommend that the Bush Administration name individuals with expertise in the private employer-sponsored retirement system to a possible presidential commission on Social Security reform.

Cash Balance Plan Issues

Over the past two years, substantial legislative and regulatory attention has been paid to the conversion of a number of large employer pension plans from traditional defined benefit plans to a form of hybrid pension plan called “cash balance.” A cash balance plan is a form of employer-funded, government-insured defined benefit plan but is considered a hybrid plan because it also has a number of features traditionally associated with 401(k) plans, such as account-type benefits and portability. These cash balance plans are typically a better fit for employers’ modern workforces, where mobile employees want to build meaningful benefits that are easily understood and can be taken along in a job change. For long-service employees who may not fare as well under the new cash balance plan, employers provide substantial transition assistance.

A number of bills were introduced in the 106th Congress concerning cash balance conversions. These proposals ranged from appropriate and practical measures to expand disclosure requirements when a plan conversion occurs, to onerous and far-reaching benefit design mandates on our nation’s voluntary, employer-sponsored retirement system. Likewise, regulatory agencies (the Treasury Department, IRS, Department of Labor and Equal Employment Opportunity Commission) have been reviewing a number of issues in connection with cash balance plans and conversions (including a charge by some that these conversions are age discriminatory). Many of the issues surrounding cash balance conversions stem from insufficient guidance from the regulatory agencies as to how these plans can most appropriately comply with today’s pension regulations.

Actions Recommended

- The Council urges the Bush Administration to oppose aggressive legislative proposals that would impose sweeping new mandates on employers, but instead recommend disclosure improvements as the most appropriate remedy to the concerns raised regarding cash balance conversions.
- We urge the Bush Administration to provide clarity, through regulation and/or legislation, regarding how cash balance and other hybrid pension plans should be treated under our pension laws.
- The Council also recommends the Bush Administration issue regulatory guidance clarifying that cash balance plans and conversions do not run afoul of age discrimination prohibitions.

Stock Ownership Issues

Employer-sponsored programs extending the benefits of equity ownership to employees have seen tremendous growth in recent years. Once a prerogative of executives, stock ownership programs (such as stock options and stock purchase plans) are now a part of the total benefits package of rank-and-file employees across a wide range of industries. These stock benefits build employee wealth, helping families send children to college, buy homes and save for retirement. Moreover, academic studies demonstrate that companies offering broad-based stock benefits enjoy higher productivity and growth rates than firms without them. Yet barriers exist that hamper the extension of stock benefit programs to an even greater number of employees. Employers that sponsor stock purchase and stock option plans face the threat of onerous new employment and income tax withholding obligations; the Alternative Minimum Tax limits the financial benefit of stock options to many middle-income employees; and aggressive new coverage mandates threaten the viability of broad-based stock purchase plans. The rapid expansion of broad-based, employer-sponsored stock plans – which benefit workers, employers and our national economy alike – will not continue unless these issues are resolved.

Actions Recommended

- The Council urges the Bush Administration to adopt policies that will encourage employee stock ownership via employer-sponsored stock benefit programs.
- In particular, we urge the Bush Administration to revert to the long-standing Internal Revenue Service position that employment and income taxes need not be withheld when employees purchase shares of stock under employer-sponsored stock option or stock purchase plans.
- The Council also urges the Bush Administration to support legislation exempting the exercise of stock options from the Alternative Minimum Tax.

SAVER Summit

In 1997, Congress passed the Savings Are Vital to Everyone's Retirement (SAVER) Act (P.L. 105-92) initiating three national summits on retirement savings. These summits bring together the President, executive branch officials, members of Congress and diverse public constituencies to raise the profile of retirement savings matters and to discuss strategies to advance retirement savings and retirement security. The first SAVER summit was held in 1998 and the second is scheduled for the fall of 2001. These summits are coordinated by the Secretary of Labor in conjunction with the private-public American Savings Education Council (ASEC).

Actions Recommended

- The Council urges the Bush Labor Department to ensure that the Summit agenda reflects the critical role played by employer retirement plan sponsors and that employer sponsors are integrally involved in the planning and execution of the Summit.
- The Council also recommends that the Bush Administration use the 2001 SAVER Summit to advance a policy agenda designed to support and expand the employer-sponsored retirement system.