Summary of the Pension Preservation and Savings Expansion Act
April 28, 2005

Helping Families Build Retirement Savings

- **Making the Savers' Credit Refundable -** Increasing the availability of the tax credit included in the 2001 pension bill for low and moderate-income savers who contribute to a workplace retirement plan or IRA, by making the credit available to Americans regardless of income tax liability.
- **Enabling Tax Refunds to Go Directly to Retirement Accounts -** Allowing Americans to contribute some or all of their federal income tax refund directly into their Individual Retirement Account (IRA) through electronic means. This will enable individuals and families to boost their retirement savings at a time when they can often afford to save.
- **Faster Vesting -** Extending the shorter vesting periods for 401(k) matching contributions contained in the 2001 tax act to other employer contributions (such as profit-sharing contributions). Reducing these vesting schedules from five years to three years will simplify the rules and assist today's mobile workers in building their retirement nest eggs.
- **Enhancing Pension Portability -** Building on the significant portability improvements in the 2001 tax act by making it even easier for employees to keep their savings in the retirement system when they change jobs. Ensuring that workers moving between tax-exempt and for-profit employers can roll over their after-tax contributions and permitting direct rollovers from workplace retirement plans to Roth IRAs (which today must be done in a cumbersome two-step process). Assisting non-spouse beneficiaries in workplace retirement plans by allowing them to roll over their inherited benefits into an IRA rather than being forced to take a taxable lump sum payment.
- **Making Today's Retirement Savings Opportunities Permanent** – Making permanent all of the retirement savings and pension reforms contained in the 2001 tax act – such as catch-up contributions, small business pension incentives, and expanded IRAs and 401(k)s. These important provisions are currently scheduled to sunset at the end of 2010, frustrating the long-term planning that is critical for retirement savings. Making permanent the savers' credit (which is currently scheduled to sunset at the end of 2006).

Expanding Workplace Plans and Participation

- **Promoting Automatic Enrollment and Automatic Increase Designs -** When an employer-sponsored retirement plan includes automatic enrollment, employees will automatically save unless they opt out. Some plans also have an "auto increase" feature that automatically increases employee contribution levels each year (unless workers opt out). Automatic enrollment has been repeatedly shown to increase retirement plan participation and savings levels dramatically, particularly among low and moderate-income workers. There are a number of provisions that would effectively encourage such strategies. Employers that adopt auto enrollment, auto increase and an accelerated vesting schedule – and that commit to a certain robust level of contributions for all workers – would be protected by a safe harbor. Clarifying that the adoption of automatic enrollment is not prevented by state wage withholding laws, and directing the Department of Labor to provide guidance on appropriate default investments to use within auto enrollment arrangements (and for all un-directed savings).
- **Expanding Small Business Pension Coverage –** Creating improvements to existing SIMPLE and SEP retirement plans to make these simplified pension designs even more attractive to small business. Small employers will be permitted to make additional contributions to SIMPLE plans on behalf of all workers. The

bill will also conform the rules for matching contributions made to SIMPLE IRAs and SIMPLE 401(k)s, providing greater flexibility to employers to adjust their contributions based on business conditions.

- **Enhancing the Retirement Security of State and Local Government Employees and Military Personnel** - Strengthening the retirement plans of state and local government employees. Facilitating helpful new pension designs for public safety workers and improving the purchase of service credit rules that enable many teachers and state and local employees to buy into a complete pension benefit in the jurisdiction in which they finish their careers. Clarifying that National Guard members and military reservists called up on active duty may continue contributing to their workplace retirement plans if their employers pay them their salary differential during their active duty service.

Uniformity and Regulatory Simplification

- **Uniform Rules** - Continuing the simplification efforts begun in past pension bills by making the tax rules more uniform across the different defined contribution vehicles (401(k), 403(b) and 457). It will also reform a variety of regulations that have unnecessarily increased the cost and complexity of retirement plan sponsorship and modify the IRS retirement plan sanctions program to establish more reasonable penalties and encourage self-correction of errors.

- **Repealing Roth 401(k)s –** These plans, which have not yet come into effect, will add one more plan to a swamped market and lose significant amounts of revenue over time.

Preserving Retirement Income

- **Incentives for Lifetime Payments** - Allowing individuals to exclude from taxation up to $2,000 in annual income drawn from qualified (retirement plan or IRA) or nonqualified annuities that last a lifetime. Encouraging individuals to consider so-called longevity insurance – a form of annuity that begins payment once you reach your life expectancy – by correcting a glitch in the minimum required distribution rules. Such longevity insurance guarantees steady income in the final years of retirement and can be purchased with a relatively modest portion of one's retirement savings.

- **Reforming Required Distribution Rules -** Reforming the minimum required distribution rules, which force individuals to begin taking their retirement money at age 70½, by indexing this age to future increases in life expectancy. In addition, individuals with less than $100,000 in their combined IRA and 403(b) accounts would be exempt from these rules altogether, freeing many modest-income seniors from a complex set of requirements aimed at those with significant assets. Finally, the excise tax for those who fail to take their proper distributions would be reduced from 50% to 25% – enough to deter gaming while avoiding draconian penalties on seniors who make innocent mistakes.

- **Ensuring that Workers Receive Earned Benefits** - Improving upon the automatic rollover provision enacted in the 2001 tax act by providing that retirement plan payments of under $5,000 may be sent to the Pension Benefit Guaranty Corporation (PBGC) when employees have not made an affirmative election regarding where to send their rollovers. Building on a successful PBGC program to match workers with benefits they have earned under terminating defined benefit plans by establishing a similar program for terminating defined contribution and multiemployer plans.

- **Continuing Post-Enron Reforms –** Including providing for pre-tax financial planning, creating a large tax on golden parachute payments when a company goes into bankruptcy, and allowing for greater diversification of savings.