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Statement of the Investment Company Institute
"State of the American Senior: The Changing Retirement Landscape for Baby Boomers"
Hearing of the Special Committee on Aging
United States Senate

September 25, 2013

The Investment Company Institute[1] is pleased to provide this written statement in connection with the hearing on September 25, 2013, in the U.S. Senate Special Committee on Aging titled "State of the American Senior: The Changing Retirement Landscape for Baby Boomers." We applaud the Committee, Chairman Nelson, and Ranking Member Collins for examining the challenges facing today's retirees, including those involving Social Security, health care costs, loss of employment-based benefits, and potentially having to delay retirement and work longer. The importance of saving in workplace-based plans was appropriately noted during the hearing and witnesses were asked for ideas on how to encourage small businesses to offer retirement plans to their employees. The Institute strongly supports efforts to promote retirement security for American workers. In that regard, our statement offers a modest—and readily implementable—proposal for increasing plan sponsorship among small businesses.

The Simpler Plan Solution

Small employers have a number of options for retirement plans today, but none of those options work well for workplaces where the majority of workers are focused on saving for goals other than retirement—such as education, a home, or an emergency fund. One approach to help these companies and their workers would be to create a new, "Simpler" retirement plan. Such a plan would allow the workers who *are* focused on retirement saving to put away between $5,000 and $10,000 a year, tax-deferred, without the complex rules and costs more applicable to large plans. This new plan could be modeled after, or added to, the existing provisions for SIMPLE plans.

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[1] The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of $15.2 trillion and serve more than 90 million shareholders.

Current Law

Small employers have many different plan options to choose from: payroll-deduction IRAs, SEP IRAs (which allow only employer contributions), SIMPLE IRAs or SIMPLE 401(k) plans, as well as full-blown tax-qualified plans such as 401(k), profit-sharing, or defined benefit plans. Many small employers may like to offer employees the option to contribute to a 401(k) but cannot meet the non-discrimination tests and do not have the capacity to make the required employer contributions associated with the safe harbor 401(k) plan or a SIMPLE plan.

The SIMPLE IRA plan, for example, is—as its name implies—a very simple plan to establish and maintain, and has attractive employee contribution limits as compared to a regular traditional or Roth IRA ($12,000 vs. $5,500 in 2013). There are no complex nondiscrimination rules to deal with. However, the employer must make contributions to the SIMPLE IRA. For employers whose workforce places little value on compensation paid as retirement benefits, the required employer contributions discourage the adoption of SIMPLE plans. The rules for SIMPLE IRAs are described in detail below.

SIMPLE IRA requirements. Under Internal Revenue Code §408(p), employers with 100 or fewer employees who received at least $5,000 in compensation from the employer in the prior year may establish a SIMPLE IRA plan. The employer may not maintain any other retirement plan while maintaining a SIMPLE IRA plan. The employer can choose to cover all employees or only employees who received at least $5,000 in compensation during any two prior years and are reasonably expected to receive at least $5,000 during the current year. Employees may contribute up to $12,000 in 2013 (plus a $2,500 catch-up contribution for individuals age 50 or older). Employers must either match employee contributions 100 percent up to 3 percent of compensation or make a nonelective contribution of 2 percent of each eligible employee's compensation. All contributions must be fully vested. Each year, employees must receive notice of their rights under the plan, an election form, and a summary description. There is no annual reporting required (such as Form 5500), beyond reporting participation and contributions on an employee's W-2. The IRS provides model forms for establishment of a SIMPLE IRA plan, including a model notice to eligible employees and a model salary reduction agreement (*see* Forms 5304-SIMPLE and 5305-SIMPLE). Many financial institutions offering SIMPLE IRA plans use the IRS forms (although they could instead provide their own plan document). SIMPLE IRA plans generally are subject to Title I of ERISA, but have more limited fiduciary obligations than a 401(k) plan for example.

Explanation of Change

We propose a very modest change to current law that would build on the existing framework for SIMPLE IRA plans.[2] In its simplest form, the new plan would work the same as the SIMPLE IRA, except that employer contributions would not be required and the employee deferral limit would be set lower than that for SIMPLE IRAs ($12,000 for 2013), but higher than the regular IRA contribution limit ($5,500 for 2013). To implement this change, Congress could amend Code §408(p) (Simple Retirement Accounts) to add an option with no employer contribution and lower deferral limits. The IRS would revise certain existing guidance on SIMPLE IRAs (Notice 98-4) to reflect the new option, make any necessary conforming changes to IRS regulations, and revise their model forms to reflect the new option.

The Simpler plan should be an attractive, low-cost option for employers currently reluctant to offer a plan. Because the Simpler plan would be available only to small employers (100 or fewer employees)—the group least likely to currently offer plans—we believe the new option would not detract from the successful 401(k) system. Indeed, as these employers grow and become accustomed to the basic responsibilities of sponsoring a plan, they may be more inclined to step up to offering a 401(k) plan with its higher contribution limits and additional flexibility.

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We believe the Simpler plan would provide a valuable new opportunity for retirement savings to those currently without workplace plans. We stand ready to assist this Committee in ensuring that Americans have the right tools to achieve a secure retirement.

[2] The new plan also could be structured as a SIMPLE 401(k) plan, but we focus here on SIMPLE IRAs because we believe the more streamlined rules applicable to SIMPLE IRAs would make the new plan attractive. Very few employers that offer SIMPLE plans elect to use the SIMPLE 401(k) format.