Statement of the U.S. Chamber of Commerce

ON: Pensions and Retirement

TO: The House Committee on Ways and Means, Tax Reform Working Group on Pensions/Retirement

BY: The U.S. Chamber of Commerce

DATE: April 12, 2013

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on issues are developed by Chamber members serving on committees, subcommittees, councils, and task forces. Nearly 1,900 businesspeople participate in this process.

Statement
to the
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS
TAX REFORM WORKING GROUP ON PENSIONS/RETIREMENT
on behalf of the
U.S. CHAMBER OF COMMERCE
Friday, April 12, 2013

INTRODUCTION

Chairman Camp, Ranking Member Levin, Members of the Committee, and Tax Working Group members, the U.S. Chamber of Commerce greatly appreciates the opportunity to comment on the potential impact of tax reform on retirement plans.

The Chamber appreciates the commitment of the Committee and the Working Group towards comprehensive tax reform. However, as Congress considers comprehensive tax reform and reducing the deficit, it must not fundamentally alter one of the central foundations – the tax treatment of retirement savings. Doing so would imperil the existence of employer-sponsored retirement plans and the future retirement security of working Americans.

REVENUE AND SCORING ISSUES

Much of the discussion surrounding comprehensive tax reform has focused on base broadening which eliminates or reduces tax expenditures. Unfortunately, the tax treatment of retirement plans is treated as a tax "expenditure" for the purposes of budget scoring. However, the tax incentives for retirement plans are not a complete revenue loss, rather they are a deferral of taxable income. At the time of retirement, deferred amounts are then taxed at normal income tax rates. Therefore, retirement incentives are not truly a tax expenditure but are often recouped outside of the Congressional 10-year budget window. Thus, the costs of the incentives are often overestimated. As such, we urge the Committee to keep this inconsistency in mind during tax reform. Any changes to tax incentives for retirement plans would not create the "savings" that is reflected in the scoring process and would have a detrimental impact on the retirement security of millions of American workers.

In addition, we are extremely concerned about the use of Pension Benefit Guaranty Corporation (PBGC) premiums to raise revenue. The PBGC was established to act as a backstop for private retirement plans in the event a plan sponsor goes bankrupt. The PBGC is funded entirely by the private sector and does not receive any funds from the general treasury of the United States. Nonetheless, when PBGC premiums are increased, they are scored as raising revenue for the general treasury. This circumstance creates a false incentive for Congress to increase the premiums. Moreover, raising the PBGC premiums, without making contextual reforms to the agency or the defined benefit system, amounts to a tax increase on employers that have voluntarily decided to maintain defined benefit plans. An increase in PBGC premiums, when added to the multi-billion dollar impact of accelerated funding enacted in 2006, could divert critical resources from additional business investment and subsequent job creation. Raising PBGC premiums also creates additional disincentives for employers to provide defined benefit pensions. Rather, PBGC premium increases should be considered only in the context of comprehensive pension reform and after there has been ample opportunity for discussion, careful consideration of the potential impact, and buy-in from all interested parties.

COMPREHENSIVE TAX REFORM

Maintaining current tax incentives for retirement saving is critical. 82 million American households currently participate in over 700,000 retirement plans.[1] These households have a combined $19.5 trillion earmarked for retirement.[2] As Congress considers comprehensive tax reform, we urge Congress to carefully consider the impact of changes to tax incentives for retirement plans.

Employer-sponsored retirement plans have introduced tens of millions of American workers to retirement saving. Eliminating or diminishing the current tax treatment of employer-provided retirement plans would jeopardize the retirement security of these workers, impact the role of retirement assets in the capital markets, and create challenges in maintaining the quality of life for future generations of retirees.[3]

Qualified plans provide significant benefits to employers and employees by encouraging retirement saving through favorable tax treatment. They allow employers to obtain a tax deduction for plan contributions and allow employees to delay paying taxes on this benefit until funds are distributed. Furthermore, studies show that employees save more when an employer plan is available than they would save on their own.[4] Payroll deduction facilitates the savings habit, and employer matching contributions as well as the Savers' Tax Credit provide further incentives. Recent research finds that the single best predictor of retirement readiness is participation in a work-based savings plan.[5]

A number of proposals have been put forth as alternatives to the current tax treatment for retirement plans. However, there is substantial evidence that changing the tax treatment or

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[1] Investment Company Institute. *Helping Working Americans Achieve a Financially Secure Retirement: How the 401(k) System is Succeeding*, July 2011, available at http://ici.org/pressroom/speeches/11_pss_ayco_401k.; Employee Benefits Research Institute, EBRI Databook on Employee Benefits, Chapter 10 updated May 2011 available at http://ebri.org/pdf/publications/books/databook/DB.Chapter%2010.pdf.
[2] Investment Company Institute. *Report: The U.S. Retirement Market, Fourth Quarter 2012*, Mar 27, 2013, available at http://ici.org/research/retirement. These figures also include assets held in government-sponsored plans.
[3] United States Senate Committee on Finance Hearing, "Tax Reform Options: Promoting Retirement Security," September 15, 2011, http://finance.senate.gov/hearings/hearing/?id=ba387157-5056-a032-5252-c7bf71fc6c90.
[4] Investment News. *A Survey of Retirement Readiness.* October 2, 2011. http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20111002/REG/310029977.
[5] Id.

lowering contribution levels will reduce retirement savings and result in fewer employers offering retirement plans to their employees. The lowest paid employees likely would suffer the most.

A case in point is the proposal authored by William Gale of the Brookings Institution to substitute a tax credit for the present tax deferral. In recent testimony before the House Committee on Ways and Means, Jack VanDerhei, Research Director at the Employee Benefit Research Institute (EBRI), stated that under the Gale proposal the average reductions in 401(k) accounts at the normal retirement age under Social Security would range from a low of 11.2 percent for workers currently age 26-35 in the highest-income groups, to a high of 24.2 percent for workers in that age range in the lowest-income group.[6]

Another analysis by EBRI reveals that the recommendation by the National Commission on Fiscal Responsibility to limit contributions to defined contribution retirement plans to the lesser of $20,000 or 20 percent of compensation will reduce retirement security for workers at all income levels, not just high-income workers. According to the study, those in the lowest-income quartile will have the second highest average percentage reductions. Also, small business owners may be less likely to offer a plan to their employees if contribution limits are lowered.[7]

Furthermore, a large majority of households with defined contribution plans say that immediate tax savings from their plans are a big reason to contribute and 79% of U.S. households think that it should be a national priority to continue to provide tax incentives to promote retirement saving.[8] Therefore, the ramifications of eliminating tax incentives for retirement plans are far too great to dismiss lightly. It is critical to future retirees to ensure that we not only keep the private retirement system but also enhance and strengthen the system to ensure further retirement security for millions of Americans.

PENSION AND RETIREMENT REFORM UNDER THE TAX CODE

As a large part of the Employee Retirement Income Security Act of 1974 (ERISA) encompasses the Internal Revenue Code (Code), the discussions on tax reform have understandably led to larger conversations about possible reform to the retirement system beyond tax incentives. In April of 2012, the Chamber issued a white paper entitled, *"Private Retirement Benefits in the 21st Century: A Path Forward*" to respond to concerns about retirement security.[9] The white paper offers guidelines on initiatives and reforms that will bolster the voluntary employment-based retirement benefits system and retirement security for workers. These recommendations include ways to encourage employers to create and maintain retirement plans while encouraging greater savings by workers, and to identify ways to make retirement assets last for future retirees.

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6 Testimony of Dr. Jack VanDerhei, Research Director, Employee Benefit Research Institute before the House Committee on Ways and Means Hearing, "Tax Reform and Tax-Favored Retirement Accounts," April 17, 2012, http://www.ebri.org/pdf/publications/testimony/T-172.pdf.

7 Id.

8 Holden, Sarah and Steven Bass. Investment Company Institute. *America's Commitment to Retirement Security: Investor Attitudes and Actions, 2013*. February 2013, pp. 2-3.

9 https://www.uschamber.com/sites/default/files/reports/1204Private_Retirement_Paper.pdf.

We are submitting this paper to the Working Group in its entirety; however, we would like to highlight certain retirement issues that have come up in retirement reform conversations.

The private retirement system is a success. Most importantly, we ask Congress to do no harm. Conventional wisdom suggests that today's retirees receive less income from employment-based plans than in the "good old days." However, income from defined benefit and defined contribution plans represented 19% of retiree income in 1975; whereas, by 2009, it accounted for 26% of retiree income.[10] The number of retirees receiving retirement income from employment-based plans has also grown, from 20% of retirees in 1975 to 31% in 2009.[11] Consequently, any proposals to undo the current system or substantially change the current private retirement system would undermine the success of the system. Rather, "reform" of the private retirement system should focus solely on building on the current system.

Innovative plan design is central to the success of the private retirement system. One of the great successes of the private retirement system has been the ability of employers to implement new plan designs to accommodate changing demographics and evolving workforce needs. No single plan design is perfect for every company or every worker. As such, the private retirement system has encouraged innovation in plan design. Many employers have more than one type of plan as part of their retirement program to reflect various needs of its workforce.

In addition, the Chamber believes that the key element to the private retirement system is the voluntary nature of the system. For employers that choose to implement retirement programs, flexibility and choice are key considerations. We hope the mix of types of benefit plans in the future will be as diverse as it is today – defined benefit, defined contribution, multiemployer, and hybrid plans. Demographic and competitive needs will likely spur the creation of plan designs that we have not even begun to contemplate. Consequently, it is critical that there are no statutory, practical, or political barriers to innovation that would discourage participation in the private retirement system.

Barriers to Phased Retirement Need to be Removed. Employers large and small are facing the issue of how to retain critical talent as large numbers of employees are nearing retirement age. With approximately 10,000 baby boomers turning 65 every day for the next 19 years,[12] the United States is expected to lose the services of these highly skilled, experienced workers because the options are limited: continue to work or retire. Companies are experiencing a significant loss in institutional knowledge, leadership, and talent due to retirements, without the opportunity to phase these skilled workers into retirement, while transferring knowledge to the next generation of workers. This loss will continue unless the law is changed to allow employers to offer a new option to employees: voluntary phased retirement.[13]

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[10] Investment Company Institute. *Helping Working Americans Achieve a Financially Secure Retirement: How the 401(k) System is Succeeding,* July 2011, available at http://www.ici.org/pressroom/speeches/11_pss_ayco_401k.

[11] Id.

[12] Pew Research Center, Baby Boomers Approach Age 65-Glumly. http://pewresearch.org/pubs/1834/baby-boomers-old-age-downbeat-pessimism.

[13] Last summer, the President signed into law a phased retirement option for eligible Federal employees in the Moving Ahead for Progress in the 21st Century Act. The rationale for this is to encourage the most experienced Federal employees to extend their contributions to the Nation and help agencies improve continuity of operations by

The benefits of encouraging phased retirement could be significant. Employers won't experience major workforce disruptions, a loss of critical talent and institutional knowledge or incur recruiting and training costs. Employees who have a strong economic incentive to retire or want additional financial security can continue to work and earn wages and benefits, yet transition into retirement gradually. Importantly, allowing employers the flexibility to implement phased retirement programs can help not only address the issue of retaining critical, highly skilled talent, it can also broaden the tax base and reduce the pressure on federal retirement programs such as Social Security and Medicare.

However, several barriers exist to implementing a phased retirement program. The Code and ERISA impose requirements that limit flexibility in retirement plans sponsored by private employers. For example, current law prohibits private employer defined benefit pension plans from making in-service distributions for those who have not yet reached normal retirement age[14] or age 62. This age restriction has limited the ability of employers to offer phased retirement to workers eligible for early retirement under their pension plans. Importantly, employers will not offer these programs if they are considered a "protected benefit" subject to anti-cutback rules under Code section 411(d)(6). Also, current regulations would make it difficult to pass non-discrimination testing based on the inclusion of beneficiaries who participate in a phased retirement program. By making targeted changes to the law, phased retirement programs can offer employers the flexibility to design a retirement strategy that makes sense while giving employees the ability to change what it means to retire.

Enhance the Small Business Tax Credit. Congress implemented a tax credit for small businesses to encourage the formation of retirement plans.[15] However, the current credit is too small and short-lived to change behavior. Lawmakers should consider expanding the credit and making it refundable to increase the incentive for small businesses to set up retirement plans.

Address Non-Discrimination Testing for Grandfathered Pension Plans. Many companies designed their transition from a defined benefit structure to a defined contribution structure in a way that allowed older, long service employees who were close to retirement to maintain accruals under the defined benefit pension plan. However, more of these grandfathered are becoming highly-compensated employees. Since there are no new entrants to the plan, the number of non-highly compensated employees is becoming smaller. This phenomenon is making it difficult for companies to pass the discrimination testing. In order to pass the tests, companies may be forced to change the retirement benefit structure (i.e., defined benefit to defined contribution) of employees who are closest to retirement with the least amount of time to make up the difference – the outcome they sought to avoid by implementing the transition period in the first place.

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bolstering mentoring and knowledge retention programs. Private employers also need the flexibility to offer voluntary phased retirement programs to their critical employees in a non-discriminatory manner based on workforce needs.

[14] It is unclear whether in-service distributions from a defined benefit plan are permitted upon the attainment of the plan's early retirement age.

[15] The credit is allowed for the first three years of start-up costs of a new small business retirement plan (with fewer than 100 participants) of up to 50 percent of the first $1,000 (i.e., $500) in startup administrative and retirement-education expenses. I.R.C. section 45E.

The Chamber recommends revising the nondiscrimination rules so that if a group of employees is grandfathered (*i.e.*, allowed to continue to accrue a benefit after a plan is otherwise frozen to new entrants) and that group of employees is a nondiscriminatory group when the plan is frozen, it would be treated as a nondiscriminatory group permanently (unless the group or the benefit formula applicable to the group is modified by plan amendment).[16] This recommendation would prevent frozen plans from violating the rules prohibiting discrimination in favor of highly compensated employees and allow these long-serving employees to continue to accrue benefits under a defined benefit plan.

Eliminate/Minimize Administrative Burdens. There are several rules that add unnecessary burdens on employers but provide minimal benefits to participants or the plan. For example, the Chamber recommends eliminating the top-heavy rules and simplifying discrimination testing. The Chamber's white paper discusses these recommendations along with several others in further detail.

Facilitate the Expansion of Multiple Employer Plan Designs. Another way to increase retirement plan sponsorship among small businesses that do not sponsor plans currently would be to facilitate and expand the use of multiple employer plans (MEPs). MEPs offer an attractive and cost-efficient alternative for small businesses for which a stand-alone 401(k) plan is not feasible.

Changing several of the rules regarding MEPs could significantly expand their use. For one, the Chamber recommends the implementation of safe harbors for MEP sponsors and adopting employers that would immunize them from non-compliant adopting employers. In addition, we recommend that the reporting and disclosure obligations under ERISA be simplified. Finally, the Chamber recommends that the DOL clarify that "employer commonality" is not required to establish a MEP.[17]

Streamline Notice Requirements and Allow for Greater Use of Electronic Disclosure. Consolidating and streamlining certain notice requirements would make retirement plan sponsorship more attractive for all business and small businesses, in particular. In general, the Chamber recommends a congressional review of all retirement plan notices under ERISA and the Code to determine where there is overlap and duplication. A thorough congressional review could identify many ways of relieving unnecessary administrative burdens of little or no

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[16] Rep Richard Neal (D-MA) included this proposal in legislation he introduced in the 112th Congress - H.R. 4050, *The Retirement Plan Simplification and Enhancement Act*. He has indicated that he intends to introduce similar legislation in this Congress.

[17] While the Chamber believes that there is no basis to apply this requirement to MEPs, there is sufficient ambiguity to create reluctance on the part of the employers who might otherwise consider participation in a MEP. Under ERISA's definition of an "employer" that can sponsor a retirement plan, the independent provider of a MEP can be construed as a person "acting indirectly" in the interest of an employer in relation to an employee benefit plan, and a group of participating employers can be reasonably construed as a group of employers acting in such capacity. ERISA section 3(5). By way of contrast, in two often-cited ERISA Advisory Opinions, the DOL found that certain organizations that were not organized primarily for the purpose of providing retirement benefits, and were open to membership by individuals and other non-employers, were not bona fide groups of employers, and therefore, were not employers under ERISA. (*See*, ERISA Adv. Op. 83-15A (March 22, 1983)); and ERISA Adv. Op. 88-07A (March 28, 1988). Thus, the Chamber believes that these Advisory Opinions can be differentiated in cases in which the "members" must be employers.

marginal utility while ensuring that participants receive information that is meaningful and relevant.

In addition to consolidation and elimination, it is important for regulators to recognize the benefit of electronic delivery. We believe that it is critical that the Department of Labor, Treasury and the PBGC create a single, uniform electronic disclosure standard. Specifically, the Chamber recommends a uniform standard for electronic delivery to encourage the use of electronic delivery and to allow, for those plan sponsors that wish, that electronic delivery be the default delivery option for benefit notices. The Chamber believes that modernizing the restrictive rules on electronic delivery in this manner is a critical element in the larger task of reforming employee benefit plan notice and disclosure requirements. These changes can allow for the provision of important information without it being submerged in an avalanche of rarely used information.

Furthermore, eliminating obstacles to the use of electronic delivery sends a clear message that Congress supports sustainability efforts in addition to providing meaningful information to participants.

Reform Multiemployer Defined Benefit Plan Funding. The Chamber supports comprehensive multiemployer funding reform to prevent bankruptcy among employers, including many small, family-owned businesses. On February 19, the Retirement Security Review Commission of the National Coordinating Committee for Multiemployer Plans issued a report entitled *Solutions Not Bailouts.* Several members of the Chamber participated in the Commission and contributed to the findings of the report. The proposals in the report go a long way in addressing certain serious issues in the multiemployer plan system. As such, the Chamber fully supports the recommendations and believes that the recommendations can provide a critical foundation for reform of the multiemployer pension system.

In addition to the recommendations from the Retirement Review Commission, the Chamber believes that additional reforms are needed to address employer concerns. For example, we recommend that limitations be placed on the amount of withdrawal liability that an employer can assume. There are many of our members who have gotten estimates of withdrawal liability that exceed the net worth of the company. Clearly, this is an outcome that was never contemplated when withdrawal liability was implemented and should be rectified. Limiting withdrawal liability is one example of additional reforms that will be needed. The Chamber anticipates that there will be additional recommendations as we move forward with these discussions.

Enhance the Single-Employer Defined Benefit System. The Chamber appreciates the work that Congress has done for single-employer funding by passing the funding stabilization provisions in the Moving Ahead for Progress in the 21st Century Act. These provisions create a more stable and accurate method to calculate pension funding which can free up capital and allow businesses to invest in more job-creating projects. Moreover, passage of the provisions reflects Congressional recognition of the current financial crisis, and its impact on workers, including the potential for severe, short-term negative effects on pension plans that could reduce benefits, undermine retirement security, and possibly cause significant job loss.

Policymakers can take several additional steps to encourage greater defined benefit plan sponsorship. To improve defined benefit plan funding, the law should allow for unlimited prefunding up to the amount of projected future benefits in the plan. Additionally, the IRS should eliminate the tax penalty for the reversion of assets in a pension plan after all promised benefits have been paid out to participants.[18] Most importantly, the Chamber urges Congress to keep in mind the need for predictability and flexibility to ensure that employers can continue to maintain plans that contribute to their workers' retirement security.

Clarify the Hybrid Plan Rules and Regulations. The Chamber views hybrid plans as an important part of the private retirement system. Therefore, the confirmed legality of hybrid plans in the Pension Protection Act of 2006 (the "PPA") (and as amended by the Worker, Retiree, and Employer Recovery Act of 2008) was a vital achievement that the Chamber worked toward for several years. However, due to the previous controversy surrounding hybrid plans, these plans are less widespread than they should be. Therefore, we believe that the rules provided under the PPA and the ensuing guidance from the Treasury Department ("Treasury") and the Internal Revenue Service ("IRS") can provide plan sponsors with enough certainty to establish and maintain hybrid plans and to allow for greater participation in these plans. Consequently, we urge Treasury and the IRS to set forth a clear and rational approach to PPA compliance for Pension Equity Plans. More broadly, because of the complexity of hybrid plans and their regulation, additional guidance is critical to ensure that plan sponsors have sufficient clarity and flexibility to adopt and maintain hybrid pension plans with legal certainty.

Create Greater Transparency in Accounting Standards for Employer-Provided Benefit Plans. Under The Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission designates an accounting standard setter and sets its budget. The Financial Accounting Standards Board ("FASB") has been designated as this accounting standard setter. Thus, FASB is a quasi public-private organization. The Chamber fully supports independent standard-setting. However, dialogue and input from stakeholders is important to the process and we believe that process improvements, such as transparency and cost-benefit analysis, are needed to insure appropriate levels of input.

Various accounting rules and practices in the past have discouraged the continuation of defined benefit pension and retiree health care plans.[19] Despite the best efforts of policymakers to create an environment that encourages more assertive action in these areas, these efforts can be significantly affected or undone by the actions of FASB. The negative impact of FASB standards has been seen in the area of retiree health care plans, single-employer defined benefit plans and, most recently, multiemployer defined benefit plans. To ensure that employers are not unintentionally discouraged from participation in the retirement system, it is necessary to address the accounting practices associated with voluntary benefit plans.

Encourage Financial Education for Retirement. The workplace is the primary source of retirement savings options and education for most workers. Education is critical to employees'

[18] Realizing that there are concerns about employers raiding pension assets, the Chamber would consider the incorporation of deterrents to such actions. An example of a deterrent would be to require an employer to wait a certain period of time between paying out benefits and being allowed to receive the excess assets.
[19] These rules and practices are described in detail in the Chamber's white paper.

understanding of their retirement savings options and the need to plan for retirement. Employers understand their role in providing education to their workers and rely heavily on Department of Labor Interpretive Bulletin 96-1 ("IB 96-1") in defining the "educational information" that can be provided by employers without fear of liability.

While many employers want to provide retirement education to their workers with regard to accumulation and decumulation strategies, a major concern is the ability to do so without incurring fiduciary liability. While employers recognize providing financial advice is a fiduciary action, they believe providing general retirement education should not be held to the same standard. For example, employers would like to provide a general discussion of the pros and cons of seeking a distribution and managing retirement assets outside the plan without incurring fiduciary liability.

The Department of Labor encouraged participant investment education when it preserved the status of Interpretive Bulletin 96-1 ("IB 96-1"). The Department has since asked for comments regarding the provision of information to help participants make choices regarding decumulation strategies. It might consider adding to Interpretive Bulletin 96-1 that providing educational information to participants and beneficiaries about retirement distribution options does not constitute investment advice.

Help Preserve Retirement Assets. An important component of retirement security is ensuring that retirees have sufficient assets to fund their retirement. Congressional action in key areas could help ensure that participants are able to continue to make retirement contributions during financially difficult times.

The Chamber encourages Congress to allow 401(k) plan participants to continue to make elective contributions following a hardship withdrawal. Due to the current financial crisis, many workers have had to take hardship distributions from their retirement plans. The loss of retirement savings should not be exacerbated by prohibiting these workers from making ongoing contributions to their retirement plan. In addition, the Chamber supports an extended rollover period for plan loan amounts after a termination of employment**.** A participant who defaults on a loan is treated as receiving a deemed distribution of the outstanding loan at the time of the default. The participant is taxed on the amount of the default unless he or she makes a "rollover" contribution to an IRA within a 60-day period. Since relatively few participants make a rollover contribution in connection with a plan loan default due to termination of employment, extending the rollover period could decrease the number participants who default on their outstanding loans and incur tax penalties in addition to the loss of retirement savings.

Strategies to Make Retirement Assets Last. There is growing recognition that retirement planning needs to occur throughout workers' lives, and is not something that they should focus on at the moment of retirement. While asset accumulation has long been the focus of retirement planning discussions, the decumulation of those assets in retirement has become an important consideration. As people live longer in retirement, they must consider ways to manage assets to provide a steady retirement income stream.

To encourage continued innovation and growth of financial products, it is important that lawmakers approach decumulation issues in a product-neutral manner. Public policy in this arena should serve to encourage education as to the various distribution options and to encourage product innovation to meet the varied needs of savers and retirees. In addition, lawmakers should encourage and incentivize employers to implement additional payout options beyond the lump sum option.

Address Required Minimum Distribution Rules. The Required Minimum Distribution (RMD) rule requires that retirement plan participants receive annual distributions from their 401(k) or IRA accounts beginning at age 70 ½. Participants can delay distributions if they are still working. However, 5% owners must begin receiving distribution at age 70 ½ regardless of whether they are working or retired.

Ideally, employers would like to see the RMD rule eliminated altogether because the rules are complicated and its application provides limited value. If the rule is not eliminated, the Chamber makes the following recommendations:

- Move the starting age to age 75 to match longevity increases;
- Treat 5% owners as all other account holders and permit them to continue working and not begin required distributions;
- Exclude assets invested in longevity insurance from the distribution rules.

Encourage Employers to Offer Voluntary Products. There are a number of voluntary products – such as retiree health care, long-term care insurance, and longevity insurance – that participants might find helpful in managing retirement assets. However, not every product will be appropriate or necessary for every participant. Therefore, we recommend that employers be able to make these products available to their workers in the most efficient and flexible way possible, such as through a cafeteria plan or with 401(k) plan savings.

CONCLUSION

The Chamber appreciates the opportunity to comment on comprehensive tax reform and the potential impact on the private retirement system. The private employer-provided retirement system has contributed greatly to the retirement security of millions of American workers. We believe that tax reform efforts should focus on continuing the success of the system and ensuring that employer-provided plans continue to play an important role in retirement security.

We look forward to working with Congress, the Committee, and the Working Group members as this process continues to make improvements to the Tax Code that will encourage employers to maintain existing plans and sponsor new plans, encourage employees to save more through work-based plans, and identify ways to help make assets last in retirement. The future of the private retirement benefits system depends on it.