

Statement of The Honorable Kenny Hulshof, a Representative in Congress from the State
of Missouri

Testimony Before the Subcommittee on Select Revenue Measures
of the House Committee on Ways and Means

June 26, 2008

Chairman Neal and Ranking Member English, I would like to thank you for the opportunity to testify before the subcommittee regarding the importance of Individual Retirement Accounts (IRAs) in retirement planning. Today, I would like to focus my testimony on Savings Incentive Match Plans for Employees, more commonly known as the SIMPLE IRA and 401(k) plan.

As many of you know, the SIMPLE IRA and 401(k) plan were established in the Small Business Job Protection Act of 1996. Building upon and replacing the Salary Reduction Simplified Employee Pension IRA (SAR-SEP IRA), SIMPLEs were crafted to help small businesses provide their workers with a straight forward and easily understood retirement plan without all the trappings associated with other employer sponsored plans, such as a traditional 401(k) plan.

To qualify, a small business must have 100 employees or less and cannot offer any other retirement plan. SIMPLE plan participants are able to contribute up to \$10,500 a year with employers providing either a matching contribution of up to 3% of compensation or a 2% non-elective contribution. Plan participants are fully vested in these contributions and can make penalty free withdrawals after the age of 59 and a half.

In the 12 years since its inception, participation in SIMPLE IRAs has steadily grown. In a 2005 publication of the Investment Company Institute's Perspective, it was noted that the "number of SIMPLE IRA plans grew an average of 25 percent per year between 1998 and 2003." Today, nearly 2 million employees are currently participating in either a SIMPLE IRA or 401(k) plan.

It is quite clear that SIMPLEs have proven to be a valuable retirement tool, but obstacles remain and we can clearly do more to make these plans more appealing to small businesses. To help increase participation in SIMPLE IRAs and 401(k) plans, I have partnered with my friend and colleague, Rep. Ron Kind, to introduce H.R. 5160, the Small Businesses Add Value for Employees Act or the SAVE Act of 2008. I am proud to be an original cosponsor of this legislation, which will expand and modify SIMPLE IRAs and 401(k) plans.

As we have already heard from Congressman Kind's testimony, H.R. 5160 will increase employee contribution levels to \$15,500 – the same as traditional 401(k) plans, eliminate the burdensome 25% penalty for withdrawals in the first two years of plan participation, and expand the Small Employer Pension Plan Start-up Cost Credit.

Our proposal will allow employees to reap the benefits of prosperous times by permitting small businesses to make additional non-elective contributions of up to 10% and will provide SIMPLE plan participants portability by allowing them to rollover assets into other qualified plans.

Lastly, the Kind-Hulshof proposal will provide small businesses flexibility in terms of plan administration by permitting them to terminate a SIMPLE plan mid-year instead of at the end of the calendar year. Small businesses face day-to-day challenges in their quest to remain competitive and economically viable. If a small business owner needs to terminate a plan or wishes to upgrade to a traditional 401(k) plan for example, we see no reason why he or she should be forced to wait until the end of the year.

We, along with the National Federation of Independent Business (NFIB) and the Securities Industry and Financial Markets Association (SIFMA), believe these changes will coax more small businesses into establishing SIMPLE IRAs and 401(k) plans as well as increase employee participation.

Encouraging individuals to save and invest for their retirement should be one of the highest priorities for not only this subcommittee or even the Ways and Means Committee but for this entire Congress. Toward this aim we can certainly be doing more. Unfortunately, many Americans do not have the ability to participate in an employer sponsored retirement plan and if they do, are not taking full advantage of it.

I am well aware of the Chairman and Ranking Member's proposal to create automatic IRAs to help provide employees without an employer sponsored retirement plan an option for saving. I would like to point out that the SAVE Act contains a similar provision that would create voluntary automatic IRAs to promote savings at small businesses currently lacking retirement plans.

Our nation was built on the backs of willing and able entrepreneurs who, with a little faith and help, started their own business in hopes of achieving the American dream. These small business owners have surpassed numerous hurdles to making their businesses survive and grow. Attracting bright, talented employees is crucial to small business growth and offering an employer sponsored retirement plan, such as a SIMPLE IRA or 401(k) plan, certainly helps this goal.

In closing, I would like to commend Congressman Kind for his leadership in improving SIMPLE IRAs and 401(k) plans and look forward to working with all of you to advance proposals that will help increase retirement savings. Thank you once again for the opportunity to testify.