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Retirement-Savings Bill Draws Fire for Proposals

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WASHINGTON -- A giant package of retirement-savings legislation is steaming closer to final passage in Congress, powered by a handful of politically popular measures such as increased contribution limits for individual retirement accounts and 401(k)s.

But other provisions are attracting criticism from activists and some administration officials, who say the measures primarily will benefit employers while potentially costing workers money.

The growing debate comes late in the show, which so far has played to mostly cheering audiences, as attention has focused on provisions to allow workers to contribute more money to retirement plans. In the House version, IRA limits would rise to \$5,000 from \$2,000, and limits on 401(k) plans would increase to \$15,000 from \$10,500, for example. As a result, the bill has enjoyed broad bipartisan support, racking up 401 votes in the House in July, and unanimously passing the Senate Finance Committee earlier this month.

Surprise Package

Key provisions in the pension bill:

	Proponents say provision would:	Critics say it would:
Increase contribution ceilings in IRAs, 401(k)s	Increase savings; increase coverage	Shift current assets into retirement plans without increasing overall savings
		Allow wealthy to

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Allow catch-up IRA contributions	Help women; increase savings	shift assets and save more, but wouldn't help others
Reduce salary-discrimination rules of retirement plans	Increase number of retirement plans by easing administrative burden	Allow employers to exclude more rank-and-file workers from participating
Change rules regarding cash-balance pension plans	Encourage employers to continue pension coverage	Reduce pension payouts and reverse pension protections

The increases are long overdue, proponents of the legislation say, because the value of the contributions has been eroded by inflation since the limits were set years ago. They say the increases also give employers more reason to set up plans.

Critics contend, however, that some of the other 40 little-understood measures in the bill won't do much to improve retirement security for most workers. Specifically, some key Treasury and Labor Department officials are concerned that certain provisions effectively would roll back laws enacted in the 1980s to increase retirement-plan coverage, and that the changes would allow companies to exclude more moderate and low-income workers from pension and retirement plans.

With Congress rushing toward adjournment on Friday and facing a long list of must-do legislation, passage of the bill isn't guaranteed. Still, the package has a chance of winning approval because it is appealing to members of Congress, who could point to it as a rare accomplishment on retirement issues in a year that has been largely devoid of progress on Social Security and prescription-drug benefits.

Even the White House, while critical of some provisions, is sounding a conciliatory note -- for the time being. "Our approach is to be supportive of pro-savings measures like these, while fighting to make [the bill] more equitable for low-income savers and removing provisions that could reduce income for average and low-income workers," Gene Sperling, director of President Clinton's National Economic Council, said last week. For example, Mr. Clinton wants a tax credit to encourage lower-income people to save more.

With more than 70 million Americans lacking any employer-sponsored plan, retirement security is a growing concern, and versions of the pension bill have been building momentum for several years.

Advocates of the proposed legislation dismiss critics' concerns. "Picking at some of the details of our plan and coming up with what I

think are unrealistic scenarios as to how it could possibly be a problem is not a good way to begin to address the problem," says Rep. Rob Portman (R., Ohio), the lead sponsor of the House version of the package.

Some government officials are worried by provisions that would roll back the 1980s laws, which were enacted to stop business owners from using pension and retirement plans primarily as personal tax shelters. These laws required companies to cover at least a percentage of workers and provide a minimum level of benefits in some cases.

Currently, "nondiscrimination" rules require a pension or retirement plan to cover, in effect, about 70% of employees who earn less than \$85,000. The proposed legislation would allow employers to cover only 20% to 50% of these workers, says Daniel Halperin, professor of law at Harvard University Law School and former deputy assistant secretary for tax policy at the Treasury.

Meanwhile, "top-heavy" rules say that if more than 60% of the money in a plan is in the accounts of owners and officers, the employer must contribute 3% of pay to the accounts of other employees and vest it over three years. The proposed law would eliminate top-heavy rules in some retirement plans and dilute them in others.

Employer groups say the complexity and expense of administering the rules discourage small-business owners from setting up the plans. However, a draft of a report that the General Accounting Office is releasing Monday concluded there is "little evidence" that the rules discourage small employers from providing pension benefits. "Practitioners explained that computer software makes running top-heavy tests as routine as hitting a key on a computer," noted the report, which concluded that the cost of the tests are insignificant.

Last week, Sen. Chuck Grassley (R., Iowa), whose office received a copy of the study in August, sent the GAO a letter rejecting its conclusions, saying the "accuracy and thoroughness" of the report was "unclear." A staff member for Mr. Grassley had no comment about the senator's position on the bill's top-heavy provisions.

Mr. Portman and advocates of the proposed legislation counter criticism by saying it is unlikely that businesses would start cutting workers' benefits in the midst of the current strong economy and tight labor market. In the meantime, they say, the objections are slowing down a solution to the problem of lack of pension coverage. Mr. Portman points to the already steep decline in the number of pension plans, to 45,000 in 1997 from 114,000 in 1987, as proof of the need to take action.

Labor Department statistics show, however, that the number of

pension plans at medium and large companies has remained steady since the 1980s, while the majority of terminated plans covered only one or a few people. Most of the "pension" plans that terminated essentially tax shelters that lost their luster when the pension reforms of the 1980s were enacted, says Prof. Halperin.

At the same time, some government officials say that rolling back the nondiscrimination and other rules, while simultaneously increasing contribution limits for 401(k)s and IRAs, would invite small-business owners to abandon other types of plans. That is because a small-business owner then would be able to save more money for himself in an IRA and a 401(k).

Economists are divided about the impact on overall savings. Some say it would spark a big increase; others argue that wealthier people would tend to shift existing assets into retirement vehicles. In any case, some officials say the expanded limits aren't likely to increase most workers' savings, because fewer than 5% of 401(k) participants make the maximum allowable contribution and only 4% of taxpayers contribute the annual maximum of \$2,000 to an IRA.

Meanwhile, a related provision would allow people over age 50 to contribute an additional \$5,000 a year to an IRA. The Senate version would allow catch-up contributions of \$7,500. The provisions would be phased in over time.

Sponsors say the measure "enhances fairness to women," arguing that women who spent time out of the work force to take care of children could use this provision to make up for dollars that weren't put away during those child-rearing days. Critics say the measure is championed by financial-services firms eager to attract more money into accounts they manage, and that those most likely to take advantage of this are those who have been contributing the maximum amounts for years. "They wouldn't be catching up, but bulking up," says a government official.

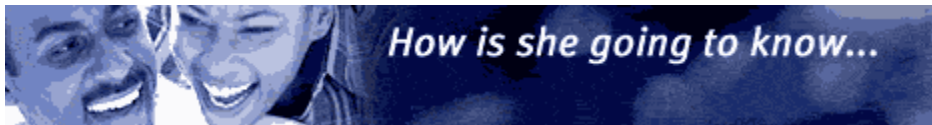
If the intent was to help women returning to work, the provision should be limited to people returning to the work force, critics say, not to anyone over age 50. "They dress it up as a women's proposal, but it wears pants," says Norman Stein, professor of pensions at the University of Alabama at Tuscaloosa. Women's groups including OWL (Older Women's League) also have criticized the provision.

Some unions, including the Communication Workers of America and the AFL-CIO, are objecting to certain cash-balance pension measures that appeared in the Senate version several weeks ago. Those provisions would help employers fight legal challenges to their cash-balance plans and continue the practice of "wearing away" the early-retirement subsidies of older workers, a practice to which the Treasury objects.

The cash-balance measures also are drawing the ire of grass-roots groups, who are pelting elected officials with complaints. "A number of them are up for re-election in tight races, and they'll hear about it at election time," says Janet Kruger, a spokeswoman for an employee coalition. The AARP, the Pension Rights Center, the National Senior Citizen's Law Center, the National Urban League and the Center for Budget and Policy Priority also oppose major measures in the package.

An additional 30 or so provisions have received almost no attention. They include measures that would allow companies to put more money into overfunded pension plans; permit owners of businesses with no employees to shelter all of their income in employee stock-ownership plans; and stop requiring companies to provide detailed pension documents automatically to employees.

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