



## **ASPA**

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### **FOR IMMEDIATE RELEASE**

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#### **ASPA OPPOSES BUSH ADMINISTRATION SAVINGS INITIATIVE**

##### **SMALL BUSINESS WORKERS WILL LOSE RETIREMENT BENEFITS IF PROPOSAL IS ENACTED**

**February 5, 2003 - (Arlington, Va.)-** On January 30, 2003, the Bush Administration announced a major policy initiative intended to promote savings. Although ASPA supports some aspects of the proposal designed to make it easier for small businesses to establish and maintain retirement plans for their workers, the proposal's substantial expansion of tax-favored opportunities to save on an individual basis will eliminate the incentive for many small business owners to incur the cost and administrative burdens of establishing a retirement plan for their small business employees. According to ASPA Executive Director, Brian H. Graff, Esq., "If this proposal is enacted, millions of our nation's small business workers will be left without a meaningful opportunity to save for retirement. ASPA will be dedicated to modifying the proposal in a way that does not harm small business retirement plan coverage, or, if it cannot be so modified, ensuring its defeat."

The President's proposal contains several incentives for individual taxpayers to save by making annual contributions to an LSA (Lifetime Savings Account) or to an RSA (Retirement Savings Account). Additionally, under the proposal ERSAs (Employer Retirement Savings Accounts) would replace existing 401(k), 403(b), governmental 457, SIMPLE, and SARSEP plans with a single plan available to all employers with rules essentially similar to existing rules governing 401(k) plans. If the Bush Administration proposal is enacted, a small business owner would be able to actually save more on an individual basis between an LSA and an RSA than if he or she established an ERSA.

Further, unlike ERSAs, LSAs have no restrictions on distributions and both LSAs and RSAs are not subject to the minimum required distribution rules, making them significantly more attractive for estate planning purposes. Establishing an ERSA will no longer make any financial sense for many small business owners and their financial advisors will certainly advise them of this.

The proposal would cause a major shift from employer-sponsored retirement plans toward individual savings. Employer-sponsored retirement plans have been shown to be an extremely effective way to promote savings, particularly for moderate income workers covered by such plans who are much less likely to save on their own. In fact, the data strongly suggests that if the President's proposal is enacted, the vast majority of small business workers with moderate incomes will simply not save at all. According to the Employee Benefits Research Institute, in 1998 only 4.3 percent of taxpayers with a family income between \$40,000 and \$50,000 contributed to an IRA. By contrast, 87.1 percent of taxpayers covered by an employer-sponsored plan with earnings between \$30,000 and \$50,000 contributed to such plans.

The significantly better participation rates by these workers is due to the convenience of payroll deductions and the incentive of employer matching contributions necessitated by operation of the current-law nondiscrimination rules. Under the President's proposal, moderate income small business workers left only with the option of an LSA or RSA and without the convenience of payroll deduction and the incentive of employer matching contributions will, as with IRAs, be unlikely to save on their own, leaving these working Americans much less prepared for retirement.

"It is an understatement to suggest that the impact of these proposals on small business retirement plan coverage will be anything less than devastating," states Brian H. Graff, Esq., ASPA's Executive Director. Graff adds that, "for the average small business worker, the President's proposal changes the three-legged stool into a pogo stick, leaving them only with minimal social security benefits. The most sensible way to promote savings is by expanding and enhancing an employer-sponsored retirement plan

system with a demonstrated track record.” As Congress considers this proposal, ASPA will be dedicated to modifying it in such a way that it does not harm small business retirement plan coverage.

ASPA is a national organization of retirement plan professionals dedicated to the preservation and enhancement of the private pension system in the United States. ASPA offers education and professional credentials for actuaries (FSPA, MSPA), pension consultants (CPC), pension administrators (QPA), 401(k) administrators (QKA), and other benefits professionals (APM). Its more than 5,000 members provide consulting and administrative support to over half of the private retirement plans in the country.

For more information about ASPA, visit our Web site at [www.aspa.org](http://www.aspa.org). You can also contact ASPA’s government affairs department by calling (703) 516-9300 or by faxing an inquiry to (703) 516-9308.

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