

MEMO# 10491

November 17, 1998

REPRESENTATIVE BLUNT'S BILL ON SMALL EMPLOYER RETIREMENT PLANS

[10491] November 17, 1998 TO: PENSION COMMITTEE No. 79-98 RE: REPRESENTATIVE BLUNT'S BILL ON SMALL EMPLOYER RETIREMENT PLANS

_____ As discussed at the Pension Committee meeting on October 22, 1998, Representative Blunt (R- MO) introduced a bill (H.R. 3870) in the last session of Congress, which would create a hybrid defined contribution plan for small employers. This small employer plan would include features of both a profit sharing plan and a money purchase plan. A H.R. 3870 type plan would be available to employers with 100 or fewer employees who have not previously sponsored a qualified retirement plan for their employees. Under the plan, all employees who worked more than 1000 hours for the employer in the previous calendar year and who were 21 years or older would be permitted to participate in the plan. An employer would be required to make a fixed annual contribution of not less than 3 percent and not greater than 10 percent of each participant's compensation to the plan and the contribution would be required to be a uniform percentage of compensation for all employees. In addition, the plan would permit an employer to make discretionary contributions to the participant's account of up to 15 percent of compensation. The discretionary portion of the plan may be structured to include a 401(k) plan. Annual contributions to the plan would be limited to the lesser of 25% of compensation or \$30,000 per year. H.R. 3870 would impose a three year cliff or six year graded vesting schedule for employer contributions. The top heavy rules under section 416 of the code would not apply to H.R. 3870 plans. H.R. 3870 would also provide a tax credit for the administrative cost of the plan for the first five years of plan operation for plans implemented before December 31, 2000. The tax credit would be limited to 50 percent of the administrative costs associated with the plan, up to \$2,000 for the first year the plan is established and up to \$1,000 a year for the next four years. Finally, H.R. 3870 would exempt "one participant" retirement plans, i.e., plans that cover only the employer and the employer's wife and that hold assets of \$50,000 or less, from the annual return filing requirement. A copy of the bill is attached. Kathryn A. Ricard Assistant Counsel
Attachment