

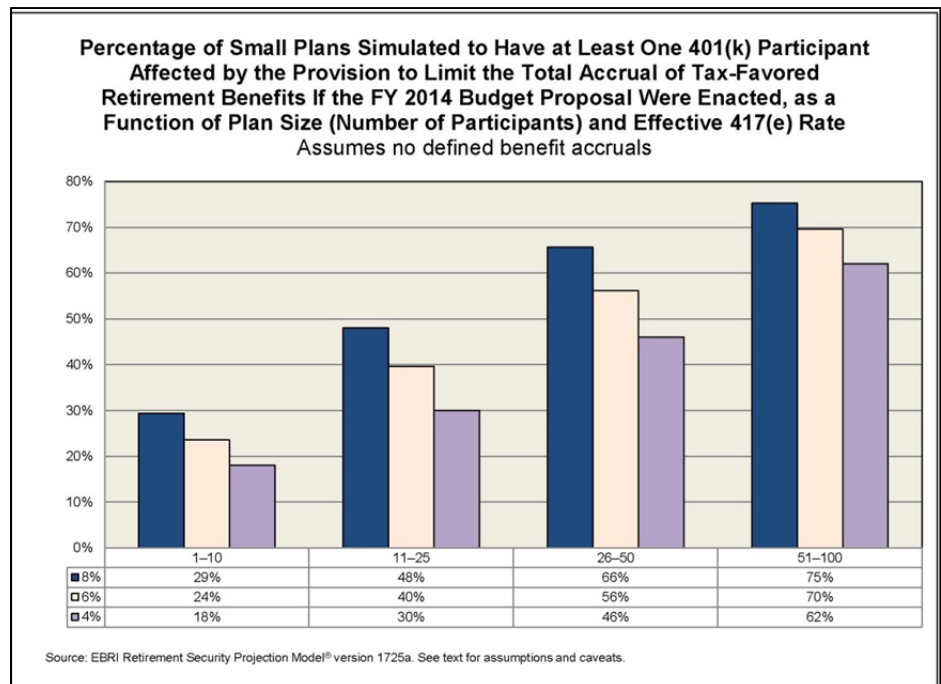
Capping Small Business Retirement Savings

Changes in tax policies can trigger responses from employers, but a proposed cap on retirement savings could have a particularly severe impact on small businesses, according to an analysis by the nonpartisan Employee Benefit Research Institute (EBRI).

As explained in the EBRI analysis, White House officials earlier this year unveiled the Obama administration's Fiscal Year 2014 budget proposal, which included a cap on tax-deferred retirement savings. Under the proposal, a taxpayer who accumulated amounts in specified retirement accounts in excess of the amount necessary to provide the maximum annuity permitted for a tax-qualified defined benefit plan under current law would be (at least temporarily) prohibited from making additional tax-deferred contributions or receiving additional accruals under any of those arrangements.

While each plan's decision maker is faced with a unique variety of financial and human capital considerations for this choice, smaller plans do stand to be more immediately affected, according to the EBRI analysis. The size and scope of the proposed cap varies based on a number of assumptions, notably the discount rate (the interest rate used to determine the present value of future cash flows).

However, the EBRI analysis reveals that even at last April's historically low discount rate of 4 percent, 18 percent of the retirement plans with as few as one to 10 participants are simulated to have at least one participant affected, and the percentage increases as the number of participants increases: At the 4 percent discount rate, 30 percent of plans with 11–25 employees have at least one participant simulated to reach the cap. This increases to 46 percent for plans with 26–50 participants and to 62 percent for plans with 51–100 participants.



The EBRI simulation analysis also illustrates how an increase in the discount rate would result in even more participants being affected by the administration's plan. Full results of the analysis are published in the August 2013 *EBRI Issue Brief*, "The Impact of a Retirement Savings Account Cap," available [online here](#).

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