National Rural Electric Cooperative Association
A Touchstone Energy® Cooperative

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NRECA Submission to the Savings & Investment Working Group

Issues and Code Sections

I. Retirement Savings:

A. Preserving NRECA's ability to offer comprehensive retirement benefits through "multiple-employer" defined-benefit and defined-contribution retirement plans under Sec. 413(c).
B. Opposing proposals that further limit American workers ability to save for retirement.
C. Opposing additional Pension Benefit Guaranty Corporation (PBGC) premium increases.

II. Health Care Tax Policies:

A. Preserving cooperatives' ability obtain group medical and other insurance coverage on a nationwide basis through a Voluntary Employee Beneficiary Association (VEBA) Trust, under Sec. 501(c)(9).
B. Repealing the 40% excise tax on "high cost" plans created by Affordable Care Act.

For more information

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I. RETIREMENT SAVINGS:

A. ***NRECA supports legislation to protect the ability of co-ops to offer the NRECA Retirement Security Plan (a "multiple-employer" defined-benefit pension plan created under § 413(c) of the Code) and support policies that provide opportunities and protect our employees' ability to save for their retirement through 401(k) plans and other investment vehicles.***

Economic security for working and retired Americans is a leading concern for electric cooperative employees and a national goal that has been supported by Republicans and Democrats and the public and private sectors for well over a century. NRECA members are committed to preserving and enhancing the voluntary employer-sponsored retirement system and the tax policies that support it. NRECA is proud that the vast majority of its members offer comprehensive retirement benefits through a traditional defined-benefit plan (the NRECA Retirement Security Plan) and a defined-contribution plan (the NRECA 401(k) Plan).

Some 880 rural electric cooperatives participate in the defined-benefit NRECA Retirement Security Plan, covering nearly 60,000 employees in 47 states, which currently has over $8 billion in total assets. And over 900 rural electric cooperatives participate in the defined-contribution NRECA 401(k) Plan, covering nearly 60,000 employees in 47 states, which currently has over $8.5 billion in total assets. Our employees are the backbone of our core mission to provide, safe, affordable, and reliable "at-cost" electricity.

Both of these critical "multiple-employer" benefit plans (under § 413(c) of the Code) are operated to maximize retirement savings for employees, retirees and their families and provides each co-op employee the financial means to enjoy a comfortable and secure retirement. Voluntary employer-sponsored retirement plans continue to promote economic security for tens of thousands of electric cooperative employees, and tens of millions of our fellow American workers.

Eliminating or diminishing the current tax treatment of employer-sponsored plans like the NRECA Retirement Security Plan and NRECA 401(k) Plan will jeopardize health and economic security of our 100,000+ employees, retirees and their families, impact the role of retirement assets in the capital markets, and create major challenges in maintaining the quality of life for future generations of retirees.

Permanent tax exclusions are completely different than incentives for retirement savings like 401(k) deferrals, and need to be recognized as such in comprehensive tax reform discussions and in Joint Committee on Taxation scoring in the 10-year budget window. Changing the current tax treatment of 401(k) plan contributions appears to increase tax revenue by "front-loading" the tax impact; however, this does not take into account the eventual taxation at ordinary income rates when withdrawn by a retiree, very often decades after the original contribution.

Even during the financial markets crisis in 2008 and 2009, contributions by employees and employers to retirement plans continued. As Congress and the Administration focus on reducing budget deficits and the national debt, changing the deferred tax treatment of these retirement plans that provides an economic and social safety net for a secure retirement should be avoided.

As Congress considers comprehensive tax reform and deficit reduction, NRECA urges you to preserve these provisions that both encourage employers to offer and workers to contribute to these retirement plans.

B. *Congress should oppose proposals like the Administration's FY 2016 Budget that limits how much Americans can save for retirement in plans like the RS Plan and 401(k) Plan*

The Administration's FY 2016 budget repeats a proposal from prior years to limit an individual's total balance today, across tax-preferred accounts like the RS Plan, 401(k) Plan, and IRA's, "to provide the maximum annuity . . . under current law (currently an annual benefit of $210,000)" starting at age 62. The Administration states that a person currently age 62 would need a total balance of approximately $3.4 million today to be equivalent to such a cap.

Originally proposed to "prevent millionaires from taking advantage of special provisions," this proposal, in particular, will just end up hurting middle-class electric co-op employees and their families by limiting participation and increasing the costs of their employee benefit plans.

Here's why: The cap is actually *much lower* for younger people (about $861,000 for a 35 year old today) and will be *even lower* when the Nation returns to historically average interest rates – which the Federal Reserve has indicated would begin in 2015 (about $325,000 for that same 35 year old). Annuity values are very closely tied to prevailing interest rates.

As demonstrated in the chart below, as interest rates change from year to year, the level of the cap will vary significantly, especially for younger workers, when expressed as a total account balance. The cap is nowhere near the Administration's stated $3.4 million when the Nation begins returning to historically average interest rates later this year.

Caps by Current Age to Secure $210,000 Annuity Commencing at Age 62

Age Today	Total Cap on Current Value of RS Plan, 401(k) Plan, IRA and any other retirement accounts **At Today's Interest Rates***	Total Cap on Current Value of RS Plan, 401(k) Plan, IRA and any other retirement accounts **At Historical Interest Rates****
25	$537,000	$156,000
30	$680,000	$225,000
35	$861,000	$325,000
40	$1,091,000	$470,000
45	$1,435,000	$703,000
50	$1,888,000	$1,046,000
55	$2,433,000	$1,528,000
60	$3,154,000	$2,243,000
62	$3,484,000	$2,607,000
65	$3,302,000	$2,510,000

* Based on *December 2014* minimum lump sum interest rates *segment rates of 1.48% / 3.77% / 4.79%*

** Based on *2015 25-year average segment rates of 5.24% / 6.79% / 7.57%, before adjusting for HATFA*

Incentivizing employers to establish and maintain benefit plans is vital to the continued viability of retirement savings plans for employees and their families. This is particularly true in the non-profit sector where executives do not have access to the same compensation arrangements, such as stock options, as their for-profit counterparts. Access to stock options and other arrangements in lieu of benefits is well known to have resulted in the diminution of defined benefit plan sponsorship nationally. Imposing limits on plans sponsored by both for-profit and not-for-profit entities will have a far greater impact on the not-for-profit community because it will eliminate one of the only ways executives can be compensated. This could result directly in reduced plan sponsorship for all employees of non-profit entities.

Many complex and critical questions still remain about the mechanics of this proposal, including the indexing formula, the applicability to different kinds of plans, treatment of non-taxable contributions and numerous other matters, making a full analysis of this very harmful and administratively costly proposal impossible. It is crystal clear, however, that proposals like this directly discourage hard-working co-op employees from participating in these plans to save for their retirement, and should be strongly opposed by all members of Congress.

C. *Congress should oppose proposals to further increase PBGC premiums on "single-employer" plans without further study of PBGC's alleged "deficit" or cede Congressional taxing authority to the Administration to set premium rates paid by plan sponsors.*

Congress enacted the Cooperative and Small Employer Charity Pension Flexibility Act in April 2014 (Pub. L. No. 113-97) ("CSEC"). In summary, CSEC finished the job Congress started in the Pension Protection Act of 2006 (Pub L. No. 109-280) ("PPA"), where Congress temporarily excluded rural cooperative "multiple-employer" defined benefit plans from its new pension funding rules, since by design, rural cooperative "multiple-employer" plans pose virtually no risk of default to Pension Benefit Guarantee Corporation (PBGC). CSEC made this exemption permanent; however, these CSEC plans remain under the "single-employer" plan rules for PBGC premium purposes. According to data provided by the PBGC, only 33 rural cooperative and charitable "multiple-employer" plans (covering just over 127,000 active employees) filed their annual required reports with this designation.

Over the last decade, Congress has enacted several PBGC premium increases on "single-employer" plans, which continues to include the NRECA Retirement Security Plan. This is an additional tax borne solely by employers who have done the right thing – voluntarily sponsoring pension plans to provide retirement security. In addition, the Administration has consistently proposed even more premium increases, as well as the authority to set its own premiums, and, annually assess the financial condition of all pension plan sponsors, including charities, small employers, and private companies. That is an alarming expansion of the Federal government and would be an unprecedented delegation of Congressional power to the Executive Branch. Importantly, PBGC recognized in its 2014 Annual Report that while the "multiemployer" program is in critical condition with no clear solution is on the horizon, the "single-employer" program continues to improve; and reported earlier in 2014 that there is a 42.5% chance that the single employer program will have a surplus in 2023. In summary, Congress should oppose any additional PBGC premium increases for defined-benefit "multiple-employer" pension plans established by not-for-profit cooperatives and charities that Congress has specifically recognized poses virtually no risk of default to the PBGC.

II. HEALTH CARE TAX POLICIES:

A. NRECA supports tax policies that ensure all member cooperatives, regardless of their size and location, have access to affordable, comprehensive and flexible health care and insurance programs for current and former employees and their dependents. NRECA continues to explore opportunities to contain the rising premium cost of our group medical program, fully recognizing that tradeoffs in the level and quality of service may be necessary. To continue operating its national health insurance program for our membership, NRECA must ensure the continuation of a structure under the Internal Revenue Code that allows for it to provide a nationwide group medical plan.

Electric cooperatives collectively provide health insurance benefits to over 100,000 employees, retirees and their families. Authorized under the Employee Retirement Income Security Act (ERISA), the NRECA Group Benefits Trust is a national plan that allows each member co-op to design a health benefits package tailored to meet the unique needs of its employees and retirees. Whether an electric co-op provides health insurance through NRECA's Group Benefits Trust or from another source, ever-rising health care costs threaten our ability to provide qualifying coverage. We support all efforts to make health care more affordable, reliable and sustainable so that electric co-ops can afford to maintain these critical employee benefits. NRECA maintains a Voluntary Employee Beneficiary Association (VEBA) trust under section 501(c)(9) of the Code that makes it possible for member cooperatives to obtain group medical and other insurance coverage on a nationwide basis.

B. Congress should repeal the 40% excise tax on "high cost" plans created by Affordable Care Act; Oppose all proposals to tax employer-sponsored benefits in any manner.

The Affordable Care Act created a wide variety of new taxes that impact employers of all sizes, including the 40 percent excise tax on "high cost" plans starting in 2018, pursuant to new section 4980I of the Code. **This unfair tax should be repealed as soon as possible.**

While the IRS will not start collecting this tax until 2018, companies of all shapes and sizes, labor unions and state and local governments are already making drastic insurance plan changes that jeopardize coverage for hundreds of millions of Americans.

Despite Congress' effort to recognize that electric cooperatives are a "high risk" industry and deserve a higher threshold before being subject to the 40% tax, we estimate that *ALL* electric cooperatives in the United States will be subject to this 40% tax in the first year. That is not because we have "Gold-Plated Cadillac Plans," but because our employees live in rural communities where limited access makes the cost of that health care disproportionately higher than in urban areas.

This tax would penalize plans that "do the right thing" to control costs. NRECA's Group Benefits Trust is a not-for-profit, self-insured/self-administered trust fund that operates "at cost" like our members It utilizes group purchasing to lower drug costs and PPO provider discounts. Collaboration with our provider networks ensures that our employees can access health care

where they live. All assets are used only for member employee benefits, and premiums are priced to meet expenses.

In short, taxing any part of our employee's health care benefits will leave electric cooperative families with less comprehensive health coverage and/or higher costs.

Congress should focus on strengthening the employment-based system that currently covers over 100,000 electric cooperative employees, retirees and their families. **Congress and the Administration should agree to immediately repeal this unfair tax**.

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