Establishment of Voluntary Pension Plans by Self-Employed Individuals

EXTENSION OF REMARKS

of Hon. EVERETT McKinley DIRKSEN
OF ILLINOIS

IN THE SENATE OF THE UNITED STATES

Wednesday, September 27, 1961

Mr. DIRKSEN. Mr. President, I ask unanimous consent to have printed in the Appendix of the Record a statement by me concerning H.R. 10, a bill to encourage the establishment of voluntary pension plans by self-employed individuals.

There being no objection, the statement was ordered to be printed in the Record, as follows:

STATEMENT BY SENATOR DIRKSEN

For the past 10 years I have followed with considerable interest H.R. 10, a bill to encourage the establishment of voluntary pension plans by self-employed individuals. I have long been in favor of the principle of this legislation, but on several occasions during the course of this 10-year period I found it necessary to differ with the proponents as to the method of achieving their goal. Today I am pleased to say that I wholeheartedly endorse H.R. 10 as reported by the Senate Finance Committee. The features which I found objectionable in the past have either been eliminated or changed to the point where I can, in all good conscience, embrace this legislation.

Practically everyone who is acquainted with this subject will agree that the principle of this legislation as now proposed is sound. Certainly the Members of the House recognized this in the 85th and 86th Congresses and again in this session when they passed H.R. 10 by a practically unanimous vote. Certainly the members of the Senate Finance Committee in the 86th Congress recognized this when, after extensive hearings, they approved H.R. 10 by a 12 to 5 vote. On August 26 of this year, this Committee ordered H.R. 10 favorably reported 14 to 3.

It was apparent to me, after reading the minority views in the Senate Finance Committee report, that a number of misconceptions still exist in the minds of two of my distinguished colleagues. Their proposals were heard and voted down by the committee in the 86th Congress and again this year. I am confident that the proponents of this legislation will, on the floor of this Congress, meet these arguments again and in such a way as to gain the overwhelming support of this body. Rather than criticize, I wish to commend the spokesmen for the various national self-employed groups because, to the best of my knowledge, at no time have they said, "If you won't give us these benefits, then we wish to have the tax taken away from the corporate employees."

This is a good bill and for a number of reasons, one of which is the way that it encourages people to help themselves. It encourages initiative, self-reliance, and the other qualities which helped to make this country great, but qualities, which I regret to say, are disappearing rapidly from the American scene. This Congress has an opportunity to resurrect these attributes which are so desperately needed by our country at this time by enacting H.R. 10 into law.

This remedial legislation is designed to correct an inequity in our tax structure which prevents this Nation's 10 million small businesses, farm and professional people from receiving treatment comparable to that which is accorded corporate employees.

The impetus for the steady growth in corporate coverage was supplied in 1942 by the 77th Congress when it wisely enacted legislation which encouraged corporations to promote the economic well-being and future security of their employees. One has only to look at the increase which has occurred since 1940 to appreciate the soundness of this legislation. In that year 4.1 million were covered; in 1950, 5.8 million; and in 1960 the figure rose to 20 million. Approximately 1 million people are being added each year to private pension plans.

When we add to the 1960 total the approximately 8 million covered by State and local government plans, civil service, armed services, railroad retirement systems, etc., the total number of Americans covered by pension plans is approximately 30 million people.

H.R. 10 does not, as its few opponents would have you believe; broaden a tax loophole, and open a Pandora's box, but rather extends what has been proven over the past 19 years to be sound legislation to the point where it includes a dedicated, courageous group of Americans, the self-employed.

To accomplish this, self-employed persons are treated for retirement plan purposes as the employers of themselves. This was the fundamental concept of the House bill and it is retained in the Senate Finance Committee's substitute. As employers, self-employed individuals are permitted, like other employers, to deduct contributions (within specified limits) made to pension or profit-sharing plans for the benefit of themselves and such other employees as may be covered by this plan. The House bill, a self-employed person would be permitted to contribute to a retirement plan 10 percent of his earned income or $2,500, whichever is the lesser. He would be permitted to deduct 100 percent of the first $1,750 plus 50 percent of the remaining $3,250, which may be contributed.

The maximum deductible amount would be $1,750.

As employees, as with other employers, they are not taxed on such contributions made for their benefit, or the income thereon, unless they receive the funds upon retirement or otherwise.

The committee changes have drastically reduced the size of the revenue deferral, in fact to a point where this can no longer be used as a major argument against this measure. Oh, I am not deluding myself, because there will be some who will cry economy, who will use the international situation as an excuse for freezing this bill; but these few, time and time again have, and will continue, to support domestic programs with his price tags and questionable dollar value.

The estimates for H.R. 10 range from less than $100 million to $200 million. In view of the actual experience in other countries, Great Britain, Canada, and New Zealand, and the fact that the Treasury Department generally overestimates, I am inclined to accept the lower figure.

Regardless of the exact amount, I wish to remind you that the potential revenue deferral is already made possible in the present tax law since the establishment of tax-deferred pension plans is available to any self-employed person who incorporates his business or occupation.

If we fail to act in this Congress, we will, I am certain, force a great many of this Nation's self-employed to incorporate and in most cases solely for the purpose of gaining tax advantages and to enjoy retirement savings similar to that which is offered their corporate brethren. Passage of H.R. 10 will encourage these fine, hard-working Americans to retain their self-employed status, defeat will be a major blow to them and an invitation to incorporate for tax advantage because of their natural desire to protect themselves in their later years. Now I don't believe we can afford the loss of too many more self-employed without jeopardizing the position of this country both on the domestic and international fronts.

H.R. 10 is a good bill, it is a just bill. I urge my colleagues on both sides of the aisle to join with me in working for the early enactment of H.R. 10 in the 2d session of the 87th Congress.
Dear Friend:

During each session of the Congress, legislative proposals are introduced to broaden the scope of the social security program and extend benefits to a greater number of citizens. Frequently, such proposals are subsequently enacted into law.

In order to provide the public with an opportunity to keep fully informed with regard to the program, from time to time the government issues publications designed not only to describe changes in the program but also to review the rules and procedures governing benefits already available.

I am enclosing one of the most recent information publications for your possible use. Should you desire additional copies, please let me know.

Sincerely,

Everett McKinley Dirksen