

2008 PRESIDENTIAL CANDIDATE EMPLOYEE BENEFIT QUESTIONNAIRE

The following organizations have submitted questions to the 2008 Presidential Candidates as follows:

The American Society of Pension Professionals and Actuaries

Proposals to expand retirement coverage by making payroll-deduction retirement savings available at work are supported by experts across the political spectrum, commonly through payroll deduction "auto-IRA's". Should the goal of "auto-IRA" legislation in the next Congress be to establish a new standard structure for workers to save for retirement? Or to encourage more employers to establish meaningful retirement plans with company contributions? What factors would be important to accomplishing your goal?

First, we should not sever the connection between employers and pensions. Matching contributions and vesting can be used by businesses to create incentives for people to remain on the job and save more for their own retirement.

Second, we should make it easier for people who work for small employers, for whom it is too costly to provide a pension plan, to save for their own retirement. Auto-IRAs are a natural way to achieve that. The goal is not to displace more and more company pensions, but rather that all workers have some way to easily save for retirement.

The National Small Business Association

After years of decline, a minority of U.S. businesses are now able to provide health insurance benefits for their workers. In addition to cost containment, insurance market changes and subsidies would appear to be necessary if the U.S. is to meaningfully decrease or eliminate the rolls of the uninsured. Do you believe these subsidies should be directed primarily toward lower-income individuals or toward employers? Why? How could those subsidies best be targeted for a maximum impact on the uninsured and a minimal impact on the federal budget?

John McCain believes that the way to help employees of small businesses that don't provide employee health insurance is to help the employee, rather than pursue Barack Obama's proposal to impose a new tax on small businesses through his "play or pay" proposal. The Obama plan will only hurt small businesses and their employees; they are facing enough challenges. Today, the tax code provides tax benefits only to those who receive health insurance through an employer. We can provide the same tax benefit to all Americans. John McCain's health-care reform plan would provide everyone a refundable tax credit that individuals could use to purchase health insurance, either through their employers or in the individual market. The credit would equal \$5,000 for families and \$2,500 for individuals. Because the tax credit would be refundable, it would permit even low-income families to purchase health insurance. Employees of small businesses that cannot afford to provide health insurance would now

be empowered to purchase health insurance—even across state lines. And families would be able to keep health insurance even if a parent changes jobs or leaves the workforce.

This tax credit would enable Americans in every tax bracket to purchase -- either from their employer or directly from an insurance company of their choice -- a health insurance plan as good as what a Member of Congress receives with no out of pocket cost.

John McCain will also take major steps to lower the cost of health insurance, such as shifting our system's focus to preventive and coordinated care, updating our information-technology infrastructure, enacting comprehensive medical-liability reform, and bringing greater competition to the prescription drug market through safe re-importation and faster introduction of generics.

Finally, John McCain has proposed a Guaranteed Access Plan, which would join the federal and state governments in a cooperative effort to help those with pre-existing conditions obtain health insurance. This plan would reflect the best experience of the States to ensure these patients have access to health coverage. One approach would establish a nonprofit corporation that would contract with insurers to cover patients who have been denied insurance and that could join with other state plans to enlarge pools and lower overhead costs. There would be reasonable limits on premiums, and assistance would be available for Americans below a certain income level.

Employers Council on Flexible Compensation (ECFC)

Health Insurance, outside of government sponsored programs, is by and large provided to American workers and their families by employers throughout the country. Group plans provided by employers are cost effective and efficient when compared to many other programs. How do you propose to support the efforts of employers to increase the quality of health care and to get the cost of health care and health insurance under control?

John McCain's plan preserves the tax code treatment of employers' health insurance expenses, and seeks help reduce the rising costs of health care. Building on the current employer-sponsored system, John McCain will provide all American families with a \$5,000 refundable credit to obtain health insurance, either through their employers or in the private market. This substantial contribution and the greater choice it would provide employees would ease the financial burden on businesses providing health insurance to their employees. McCain will also take several additional steps to reduce the cost of health care in America. Those steps include: permitting the purchase of health insurance across state lines; lowering drug prices through re-importation and generics; re-orienting our health-care system around preventive care; updating our health-care infrastructure with 21st Century technology; promoting coordinated care, where patients pay a single bill for overall disease care; reforming the Medicare and Medicaid payment systems; promoting the availability of smoking-cessation programs; passing

comprehensive medical-liability reform; and bringing more transparency to health-care costs.

John McCain's plan stands in stark contract to Senator Obama's proposal, which would dismantle the current employer-based framework in favor of a big new federal government bureaucracy. Obama would regulate the content of insurance plans coverage and meet mandate that employers pay a \$12,000 fine if they don't offer such plans. According to a study in the National Bureau of Economic Research, an employer mandate of \$9,000 for family coverage would reduce wages by \$3 per hour and cause 224,000 workers to lose their jobs. To put this in perspective, the Obama plan would lose more than the 219,000 jobs created by American small businesses so far this year. Obama would also build a big new health bureaucracy, shifting more control to lobbyist-filled Washington at a time when Medicare is broke and Congress has a single-digit approval rating. According to prior analysis of similar plans, it is estimated that his employer mandate combined with a national plan option would potentially "shred" the employer sponsored insurance system by almost one-third or more than 50 million lives and raise employer taxes by almost \$110 billion.

The United States Chamber of Commerce

Over a hundred million Americans have health, retirement and other valuable benefits voluntarily provided by their employer under a nationally uniform framework established by the 1974 Employee Retirement Income Security Act. However, a number of proposals – such as state waivers from ERISA – would eliminate the framework established under ERISA and subject employers to multiple sets of differing rules and regulations. Do you support the maintenance of the voluntary employer-provided system for health and retirement benefits? If so, what steps will you take to ensure that employers are able to continue to provide these benefits uniformly under ERISA?

The employer sponsored health system provides coverage to more than 160 million Americans. John McCain's health care plan simply builds on this system. Employers would still have the same incentive to provide health insurance as they do today. At present, employers can deduct the full cost of employee compensation—including health insurance and other fringe benefits—as a legitimate business expense. Nothing will change for employers. They will continue to be able to deduct the cost of health insurance they provide to employees. In addition, payroll taxes continue to be protected from taxes under the McCain plan. These features make providing health insurance neutral for employers in terms of financial incentives. More importantly, millions of American families with employer sponsored coverage in all tax brackets even with the same coverage as a "Members of Congress" (approximately \$12,000) will now come out ahead with McCain tax credits with additional funds going into a portable HSA. Finally, the McCain plan through a variety of comprehensive cost-containment proposals addresses the single biggest threat to employer sponsored system—rising costs.

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National Association for the Self-Employed (NASE)

The self-employed and micro-business (ten or less employees) community are finding it increasingly difficult to obtain for themselves or provide to their employees retirement and health benefits due to the lagging economy and high costs. As a candidate for President, what is your position on mandates? Do you support a mandate requiring all employers to automatically enroll their employees into a retirement savings vehicle (IRA or 401K type plan)? Do you support a mandate requiring all employers to provide health coverage to employees? And/or do you support an individual mandate on health care, requiring all citizens to purchase coverage?

John McCain supports the "auto-IRA" proposal as discussed above because it ensures that workers have the choice of building an IRA if they wish to do so, but he opposes the other mandates identified in this question. He has a far better plan to harness the power of competition and choice to provide all American families with high-quality health insurance without creating a monstrous new government bureaucracy. Under McCain's plan, every American family would receive a refundable \$5,000 tax credit to purchase health insurance, either through their employer or across state lines. Those who prefer to keep their employer-sponsored coverage could do so, and those who wish to take advantage of a better deal in the private market could do that. This plan would prove especially beneficial to workers in the self-employed and micro-business community, who would now receive the same tax break as other workers even if their employers cannot afford to provide health insurance. Underlying this plan is the fundamental principle of choice—the ability of families to choose from a menu of options to find the health-care plan that best meets their needs—in contrast to plans that outsource health-care decisions to bureaucrats in Washington.

John McCain will also take numerous steps to make health insurance more affordable by reducing costs, including: permitting families to purchase health insurance across state lines; lowering drug prices through re-importation and generics; re-orienting our health-care system around preventive care; updating our health-care infrastructure

with 21st Century technology; promoting coordinated care; reforming the Medicare and Medicaid payment systems; promoting the availability of smoking-cessation programs; passing comprehensive medical-liability reform; and bringing more transparency to health-care costs.

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American Academy of Actuaries' Pension Practice Council

In the past twenty years, many employers have curtailed their traditional pension plans (called defined benefit plans) in favor of defined contribution plans, such as 401(k) plans. Traditional pension plans guarantee specific lifetime income to retired workers – and the precipitous decline in these plans is having a detrimental effect on Americans' retirement security. Defined contribution plans are designed to encourage retirement savings, but these plans shift 100% of the post retirement risk onto the retirees – who may be illequipped to understand their risks and capably manage these risks. As a candidate, how would you encourage more risk-free and stable retirement income opportunities to the American people by either reinvigorating defined benefit pension plans or promoting the development of alternative mechanisms?

Defined-benefit plans are an important and valued retirement savings tool and can have many advantages, but they are not riskless and they may not meet the needs of workers that change jobs several times. For workers to collect the full value of such pensions, their working careers are tied to the employer. Given our increasingly dynamic economy and our increasingly mobile workforce, many of today's generations of workers are well served by having other options as well. It is only natural that our pension system adapt to our changing economy. What's more, for an employee to fully collect the full value of the pension, his or her employer must remain solvent for their entire career and retirement as well. Thus, while defined-benefit plans are a very import and valuable, they are not the only retirement savings tool.

John McCain believes that the auto-enrollment provisions are a good way to dramatically increase participation in retirement plans. By establishing a relatively high default contribution rate and a sensible but pro-growth default portfolio that becomes more conservative as a worker approaches retirement age, we will see much greater participation and much larger retirement portfolios. Indeed, the early evidence is that this has clearly occurred.

National Association of Women Business Owners

Both the accessibility and the rising cost of health care insurance is of primary concern to many Americans, and many business owners as well. In a recent survey of our members, fully 82% reported that “the cost and availability of health insurance for myself and my employees” is a very or extremely important issues – second only to the state of the economy in importance to them as business owners at the present time. Further, 47% of our members mentioned health care issues, unaided, in an open-ended question about what two or three issues would be most important to their Presidential vote this fall (again, second only to the state of the economy).

While choice, access, and quality of care issues are among the most important health care issues for business owners, NAWBO members differentiate themselves from others in their greater than average concern for preventative care and wellness issues. In particular, our members tell us that it is just as important for them to see preventative and wellness care issues included in any health care reform plan as it is to ensure choice of plans and doctors; 91% and 90%, respectively, say that it is very or extremely important for any health care reform plan to include wellness and choice.

Please explain the major elements of your health care reform plan, including how you would include preventative care, wellness care, and continued choice among coverage options and providers.

The key to John McCain’s health-care reform plan is choice. Under his plan, each American family would be provided with a \$5,000 refundable tax credit (\$2,500 for individuals) to purchase health insurance, either through their employers or in the individual market. This tax credit would replace the current deduction for employer-sponsored health insurance, thereby equalizing the tax treatment of employer-sponsored and non-employer-sponsored plans and providing a substantial increase in the federal government’s contribution to most families’ health insurance. This tax credit is sufficient to fully cover the cost of a health care plan as good as a Member of Congress’, regardless of what tax bracket you are in. For lower income Americans, this credit would cover the cost of such a plan and provide a contribution to that person’s health savings account. All families would be able to keep employer-sponsored coverage, but they could also search for better deals in the individual market and even purchase health insurance across state lines. This would vastly expand the ability of American consumers to choose among an array of options to find the health-care plans that best meet their needs. In

addition, families would be able to keep their health insurance and, more importantly, their doctors, even if a parent changes jobs or leaves the workforce.

John McCain has also proposed a comprehensive plan to reduce the costs of health care in America. A major proposal of his is to re-orient our health-care system around preventive care. Chronic conditions account for three-quarters of the nation's annual health-care bill. By emphasizing prevention, early intervention, healthy habits, new treatment models, new public health infrastructure, and the use of information technology, we can reduce health care costs. We should dedicate more federal research to caring and curing chronic diseases.

John McCain's other proposals for reducing health-care costs include: lowering drug prices through re-importation and generics; updating our health-care infrastructure with 21st Century technology; promoting coordinated care, where patients pay a single bill for overall disease care; reforming the Medicare and Medicaid payment systems; promoting the availability of smoking-cessation programs; passing comprehensive medical-liability reform; and bringing more transparency to health-care costs.

John McCain's plan stands in stark contract to Senator Obama's proposal, which would dismantle the current employer-based framework in favor of a big new government bureaucracy. Obama would mandate that employers provide a \$12,000 plan to their employees or else pay a \$12,000 fine. According to a study in the National Bureau of Economic Research, an employer mandate of \$9,000 for family coverage would reduce wages by \$3 per hour and cause 224,000 workers to lose their jobs. To put this in perspective, the Obama plan would lose more than the 219,000 jobs created by American small businesses so far this year. Obama would also build a big new health bureaucracy, shifting more control to lobbyist-filled Washington at a time when Medicare is broke and Congress has a single-digit approval rating. According to prior analysis of similar plans, it is estimated that his employer mandate combined with a national plan option would potentially "shred" the employer sponsored insurance system by almost one-third or nearly 52 million lives and raise employer taxes by almost \$110 billion.

Society of Professional Benefit Administrators

Self-funding is the largest source of health benefits (much larger than insurance company "insurance" policies). As much as 80% of workers in non-federal employee benefit health plans use some form of self-funding, mostly under the ERISA law. Congress wisely created ERISA to be the ultimate consumer protection system with strict fiduciary and transparency requirements regulated by the IRS and Department of Labor. Self-funding also allows nationwide flexibility to design health plans for the needs and cost effectiveness of each employment group or employees such as collectively-bargained. We are puzzled and concerned that most discussion about health reform uses only the very limited term "insurance." Does non-use or uninformed tinkering with self-funding indicate the intent to eliminate or starve the largest mode of consumer-oriented health coverage? If not, what role do you envision for this successful self-funding health coverage option?

Vocabulary clarification: Self-funding, also sometimes called self-insurance, is a federally-created and regulated funding vehicle for employee benefit plans. An employer for his workers, or a collective-bargained group, creates a fund and custom-designs useful types of coverage to function as its own “insurance company” known as the Plan. The Plan budgets for, administers, and pays claims. What would normally be insurance company profits stay in the Plan for future claims.

John McCain’s plan does not affect the current law related to self-funding. In discussions of the plan, the term “health insurance” is used broadly to include self-funding. John McCain will replace the current employee deduction with a refundable tax credit that can be used either for employer-sponsored health insurance (including self-funding) or insurance in the individual market. The central thrust of his plan is building on the current employer-sponsored plan—not dismantling it—to greatly expand choice for American families and to provide needed financial help for those families who cannot afford health insurance or whose employers do not provide it.

National Retail Federation (NRF)

The retail industry employs one out every five workers in today’s economy and is an important source of health coverage for our associates and their dependents. Our industry is eager to assist in efforts to improve the quality, cost and access to health coverage. Americans deserve better value for our collective health care dollar. The National Retail Federation supports comprehensive reform (see the NRF Vision for Health Care Reform) designed to build carefully from our present voluntary system of financing health coverage.

If elected, how would you ensure that federal health care reform expressly provides for continuity of coverage and care for the millions of Americans who currently enjoy employer-sponsored health coverage?

Under John McCain’s health-care reform plan, every American who currently receives coverage under employer-sponsored plans would be able to keep that coverage—and the federal contribution to the coverage would probably increase. His plan calls for a \$5,000 refundable tax credit for families (\$2,500 for individuals) to purchase health care, either through their employers or in the private market. That credit would replace the current deduction for employer-sponsored health insurance, effectively equaling the tax treatment of employer-sponsored and non-employer-sponsored health insurance while making it much easier for families to purchase high-quality health insurance. Families could keep their employer-sponsored coverage or, if they so choose, find a better plan in the individual market.

At the same time, John McCain will take several steps to reduce the cost of health care in America, including: permitting families to purchase health insurance across state lines; lowering drug prices through re-importation and generics; re-orienting our health-care system around preventive care; updating our health-care infrastructure with 21st

Century technology; promoting coordinated care, where patients pay a single bill for overall disease care; reforming the Medicare and Medicaid payment systems; promoting the availability of smoking-cessation programs; passing comprehensive medical-liability reform; and bringing more transparency to health-care costs.

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The National Institute of Pension Administrators

What steps will you take to encourage employers to provide retirement plans and encourage employees to save for retirement and under what circumstances would you propose and support a mandatory retirement savings plan, in addition to social security, for all working individuals?

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It is not appropriate for the federal government to mandate that all employers provide pension plans. Small companies may find it quite difficult and costly to do so, which is why John McCain supports the creation of auto-IRAs to help their employees to save for retirement.

Creating supplemental personal accounts to accompany Social Security is a good way to ensure not only that all working Americans have some sort of retirement saving, but also that everyone has the option to benefit from growth in financial markets.

The government should encourage employers to provide retirement plans and should encourage employees to participate in saving for their future retirement; however, outside of Social Security, it is not the federal government's job to require mandatory contributions of employees' wages to such supplemental retirement plans.

Profit Sharing/401k Council of America

Do you believe that federal benefit laws relating to retirement plans offered by governments should afford tribal governments the same status as other governments? Do you support legislation that will achieve this parity?

As a former Chairman and current member of the Senate Committee on Indian Affairs, John McCain strongly supports tribal sovereignty and equal treatment for tribal governments with their state and local counterparts. He is familiar with the this issue and cosponsored the Governmental Pension Plan Equity Act of 2004, which amends federal benefits law to treat tribal governments the same as other state and local government employers. McCain will continue to support efforts to enact this important legislation.

The Small Business Council of America

In the Winter, 2007 Quarterly Newsletter from the Women's Institute for a Secure Retirement, cafeteria plans or flexible spending accounts are described as follows: "These plans allow employees to contribute a portion of salary, before taxes, to accounts designated for health care expenses, including premiums and child care expenses...If you don't have one at your job, ask your employer about setting one up. You can reduce your federal taxes and have more money left to fund your retirement account." Actually cafeteria plans are far better for employees than this description because each employee is generally allowed to select from a variety of benefits the ones that the employee wants or needs most (hence the derivation of the name "cafeteria plan").

Unfortunately due to the tax code, small business owners, whether they operate as sole proprietors, partners, LLC members, or 2% or more Sub-S owners are all prohibited from participating in a cafeteria plan. Further, the tax code sets forth discrimination tests which make it all but impossible for the remaining small business owners (only those owning stock in a C corporation or owning less than 2% in a Sub-S corporation) to have any meaningful benefit from the plan. Not surprisingly, this creates quite a disincentive for small business owners to provide these plans for their employees. Even though cafeteria plans can provide health insurance, dental insurance, life insurance and disability insurance, they are prohibited from offering long term care insurance as one of the benefits that can be provided to employees. Given the longevity of our aging population, we should be providing people with the opportunity to buy this insurance in an easy, tax free, payroll deduction way – exactly what a cafeteria plan provides employees.

Senators Snowe, Bingaman and Bond have come up with a "SIMPLE" cafeteria plan bill which would allow small business owners to participate in a cafeteria plan, provide a small business exemption from discrimination tests in exchange for the company making a contribution on behalf of its employees and among other needed reforms, allows long term care insurance to be offered as an optional benefit under the plan. The input of all major small business associations and cafeteria plan

providers was solicited on this important legislation and it has the support of all of these groups.

As President would you support the initiative to promote small business cafeteria plans so that employees and owners of small businesses can enjoy this same benefit offered by larger businesses and governmental entities?

John McCain shares the goal of empowering employees of small businesses to obtain cafeteria plans, and he believes that his health-care plan will achieve it. A critical facet of McCain's health-care plan is equalizing the tax treatment of employer-sponsored and non-employer-sponsored plans, thus permitting employees of small businesses who currently lack health insurance to purchase it. This is accomplished through a \$5,000 refundable tax credit for every family to purchase health insurance. His plan would also permit families to purchase health insurance across state lines. These two features would encourage a proliferation of innovative plans that employees of small businesses could purchase with tax-free dollars.

Pensions & Investments Magazine

Pension funds lately seem to have become a scapegoat in Congress. For example, there are proposals to limit their investments in energy and agricultural commodities and tax them on their oil and gas investments. But pension funds also help with job creation through their venture capital investments and are vital contributors to the growth of the capital markets. How would you, as president, reconcile these too seemingly disparate faces of pension funds — are they important contributors to the economy or are they speculators who need to be reined in?

Pension funds should be administered in the best interests of their shareholders. It is not the business of Congress to covertly conduct industrial policy by imposing various mandates on their investment activities. It is in the best interest of the beneficiaries that pension funds invest in a broad variety of assets and in assets that will improve the financial standing of America's retirees. It is incumbent upon government, however, to create a financial regulatory system that protects investors and markets so that we end up with a transparent and highly efficient market. These two goals need not be at odds with one another.

The Pension Forum

Congress in passing IRC Section 409A contemplated putting an end to the practice of top officers in publicly traded companies walking away with literally millions of dollars in nonqualified deferred compensation plans, even as a company was going down in flames. Unfortunately, after 400 pages of complex regulation, IRS has determined that Congress also intended to apply this code section to virtually every operating agreement set up by a small business. The effect of this is that owners of small businesses must review, among other things, their employment agreements, buy-sell or other purchase agreements, stock options, restricted stock arrangements, partnership agreements, limited liability company operating agreements, and

numerous other standard business arrangements. It is even possible that money that is to go out to a retired owner based on receivables coming in after the owner's retirement may be subject to this code section. It is going to cost small businesses hundreds of thousands of dollars to comply with this code section that is basically meaningless in the context of a small business.

Small businesses and our Nation's economy would be better served if small business owners rather than giving fees to their tax advisors to cope with this super complicated new tax code section were able to invest this money in their companies thereby making their businesses more profitable and contributing to our Nation's economy. If you become President, would you urge Congress to restrict the impact of this code section to the companies that were originally intended and carve out an exception for businesses whose net worth is below a certain amount or for small businesses utilizing a pass through entity?

There is no question that our tax code is too complicated and that the compliance costs can be severe, more so for small business owners than anyone else. John McCain has declared his intent to keep small businesses and other pass-through entities from facing steep tax increases, and if elected he will work with Congress to reduce compliance costs as well.

To be sure, 409A has spawned some absurd results: for instance, a large corporation that pays an executive an annual bonus of \$100 million could be okay, but a small business owner who pays someone \$1200 in 12 annual installments must navigate the new set of regulations.