

MEMO# 11112

July 12, 1999

INSTITUTE SUBMITS TESTIMONY TO SENATE COMMITTEE ON FINANCE ON PENSION REFORM LEGISLATION ISSUES

[11112] July 12, 1999 TO: PENSION COMMITTEE No. 44-99 RE: INSTITUTE SUBMITS
TESTIMONY TO SENATE COMMITTEE ON FINANCE ON PENSION REFORM LEGISLATION
ISSUES _____

The Institute recently submitted written testimony to the Senate Committee on Finance regarding pension reform legislation issues. In its written statement, the Institute expressed its support for various proposals included in S. 646, the "Retirement Savings Opportunity Act of 1999", which was introduced by Senator Roth (R-DE) and Senator Baucus (D-MT), and S. 741, the "Pension Coverage and Portability Act," which was introduced by Senator Graham (D-FL) and Senator Grassley (R-IA). Specifically, the Institute urged Congress to: (1) establish appropriate and effective retirement savings incentives by raising contribution limits; (2) enact savings proposals that reflect workforce trends and savings patterns; (3) reduce unnecessary and cumbersome regulatory burdens that deter employers – especially small employers – from offering retirement plans; and (4) keep the rules simple and easy to understand.

I. Increased Contribution Limits. The Institute recommended that Congress update the rules governing contribution limits to employer-sponsored plans and IRAs, and supported provisions that would raise the contribution limits applicable to 401(k), 403(b) and 457 plans. In addition, the Institute supported the repeal of the "25% of compensation" limitation on contributions to defined contribution plans. The Institute also urged Congress to raise the \$2,000 IRA limit, which has not been increased since 1981, and to simplify IRA rules by repealing income-based eligibility rules, as proposed in S. 646.

II. Savings Proposals That Reflect Workforce Trends And Savings Patterns. The Institute recommended that the laws governing pension plans allow workers to consolidate their retirement accounts as they move from employer to employer, regardless of plan type, and be flexible enough to allow working Americans to make additional contributions when they can afford to do so. Specifically, the Institute supported legislation that would:

A. Facilitate retirement account portability by allowing individuals in any type of individual account program (including 401(k), 403(b), 457 and IRAs) to move assets among these programs as they move from employer to employer over the course of their careers; and

B. Permit "catch-up" contributions to enable individuals age 50 and older to increase their annual contributions to employer-sponsored plans and IRAs.

III. Small Employer Retirement Plan Coverage. In order to facilitate small employer retirement plan coverage, the Institute supported provisions of S. 646 and S. 741 that would:

A. Implement a tax credit program that would reduce pension plan start-ups costs for small employers and reduce the cost of employer contributions to the plan on behalf of lower-paid employees; and

B. Improve the Savings Incentive Match Plan for Employees (SIMPLE) program for small employers by increasing

the SIMPLE contribution limit and creating salary-reduction- only SIMPLE plans. IV. Simplify Unnecessarily Complicated Rules. The Institute indicated that simplicity is the key to successful retirement savings programs. In its written statement, the Institute indicated its support for legislative proposals that would simplify the rules applicable to employer-sponsored plans including proposals that would: A. Provide a new automatic contribution trust nondiscrimination safe harbor for 401(k) plans; and B. Modify the anticutback rules under section 411(d)(6) to permit plan sponsors to change the forms of distributions offered in their retirement plans. A copy of the testimony is attached. Kathryn A. Ricard Assistant Counsel Attachment

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