August 9, 1990

ICI TESTIMONY ON EMPLOYEE BENEFITS SIMPLIFICATION ACT

August 9, 1990 TO: PENSION COMMITTEE NO. 21-90 RE: ICI TESTIMONY ON EMPLOYEE BENEFITS SIMPLIFICATION ACT _____ As we previously informed you, Senator Pryor recently introduced S. 2901, the Employee Benefits Simplification Act. (See Institute Memorandum to Pension Committee No. 18-90 dated July 31, 1990.) If enacted, the bill would simplify miscellaneous employee benefits provisions in the Internal Revenue Code and require transfer of pre-retirement distributions in excess of $500 to an IRA selected by the employee. Recently, the Institute submitted the attached written testimony on the Pryor bill expressing the industry's support for employee benefits simplification legislation in general and making several specific comments regarding the bill. The Institute recommended that the legislation permit an employee to rollover his or her after-tax distribution from a retirement plan into an IRA. The Institute supported the use of the existing IRA as the vehicle to achieve pension portability and expressed the industry's disapproval of creating any new portability vehicle such as an IRA with joint and survivor annuity requirements. With regard to the bill's minimum amount of pre-retirement distributions subject to mandatory transfer to an IRA, the Institute recommended that the $500 threshold be increased to $3,500. Finally, the Institute supported the proposal to increase the availability of SEPs with salary reduction arrangements to employers with 100 or fewer employees. However, we noted that this type of SEP would be much more popular if the "top-heavy" provisions of the Code were simplified. We will keep you informed of further developments. W. Richard Mason Assistant General Counsel Attachment