

**MEMO# 10835**

March 26, 1999

# **INSTITUTE SUBMITS TESTIMONY ON PRESIDENT'S FISCAL YEAR 2000 BUDGET PROPOSALS**

1 For a discussion on the tax provisions, see Institute Memorandum to Accounting/Treasurers Committee No. 9-99, International Committee No. 11-99, Tax Committee No. 5-99 and Transfer Agent Advisory Committee No. 22-99, dated March 24, 1999. [10835] March 26, 1999 TO: PENSION COMMITTEE No. 21-99 RE: INSTITUTE SUBMITS TESTIMONY ON PRESIDENT'S FISCAL YEAR 2000 BUDGET PROPOSALS

The Institute recently submitted written testimony on the President's fiscal year 2000 budget proposals. This written statement, summarized below, sets forth the Institute's position on several retirement security provisions as well as tax issues of interest to regulated investment companies and their shareholders.<sup>1</sup> With regard to retirement security issues, the testimony focused on three areas as follows: (1) retirement account portability; (2) small employer retirement plan coverage; and (3) increased contribution limits. I. Retirement Account Portability. Under the current Administration proposal on retirement account portability, rollovers to and from 457 plans would be prohibited. In its testimony, the Institute urged the Administration to consider a broader approach to enable 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 career. In addition, the Institute recommended that the Administration revise its portability proposal to eliminate unnecessary administrative burdens on IRA custodians and trustees. Specifically, the Institute opposed the Administration's proposal to require IRA trustees and custodians to track basis related to after-tax rollovers. II. Small Employer Retirement Plan Coverage. As Administration proposals recognize, the low rate of small employer retirement plan coverage is a matter of serious public concern. The Institute recommended the following initiatives: 1. Improve the Savings Incentive Match Plan for Employees (SIMPLE) program for small employers by permitting employees to defer annually up to the \$10,000 limit applied to 401(k) plans. 2. Reduce the cost of maintaining retirement plans by eliminating or modifying the top-heavy rule, which inhibits small employer plan formation and, as the Administration proposes, consider a tax incentive to induce small employer to establish plans. 3. Assure that any new programs for small employers provide effective incentives for employers and do not undermine currently successful programs, such as the SIMPLE program. III. Increased Contribution Limits. The Institute recommended that the Administration consider raising plan contribution limits that inhibit adequate retirement savings, including the \$2,000 IRA limit, which has not increased since 1981. In addition, the Institute indicated its support for "catch-up" contributions, to enable individuals age 50 and older to increase their annual contributions to employer-

sponsored plans and IRAs. A copy of the testimony is attached. Kathryn A. Ricard Assistant Counsel Attachment

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