

MEMO# 3225

October 24, 1991

SPECIAL MEETING TO DISCUSS IRA LEGISLATION

1 */ For example, an individual who contributes \$8,475 to a 401(k) could not make an IRA contribution, but if he contributes \$7,475, he could make a \$1,000 IRA contribution. This structure is also known as a "last-dollar" offset. - 1 - October 24, 1991 TO: PENSION COMMITTEE NO. 32-91 RE: SPECIAL MEETING TO DISCUSS IRA LEGISLATION

A special meeting of the Pension Committee has been scheduled for Tuesday, October 29 at 10:00 a.m. to discuss the IRA legislation currently under consideration by Senator Bentsen. The meeting will be held at the Madison Hotel in Washington, D.C. The purpose of this meeting is to determine the Pension Committee's recommendation to the Institute's Executive Committee as to whether the Institute should support or oppose this proposal. Because of the importance of this meeting, we ask that each of you try to attend, or send a representative, and bring a member of your organization responsible for IRA marketing. Please be prepared to cast your organization's vote at the meeting on Tuesday. Senator Bentsen's revised proposal is designed to reduce the revenue loss from \$25 billion to \$12.5 billion by adding the following provisions to the IRA legislation introduced earlier this year: coordinating 401(k) and 403(b) contributions with IRA contributions to establish a maximum combined limit at the 401(k) limit, currently \$8,475, and the 403(b) limit, respectively;*/1 allowing conversion of existing IRAs to so-called "back- end" IRAs; requiring that new IRA contributions by taxpayers over age - 2 - 59-1/2 be held for five years or be subject to the 10 percent early withdrawal penalty; and delaying the effective date until January 1, 1992. - 1 - IRA-401(k) Coordination Following internal meetings as well as a meeting of representative fund groups, the Institute has identified the following issues concerning the first feature, the proposed coordination with 401(k) contributions, as compared to the provisions of current law. (1) The effect of the proposal on IRA eligibility. We are collecting data, and would ask your organization to also collect data, concerning the impact of the new proposal in terms of increased IRA eligibility. Specifically, we would like to review data concerning the number and income levels of participants in 401(k) and similar plans who contribute the section 402(g) or similar maximum limit (or contribute an amount within \$2000 of the limit), especially those with annual incomes in excess of \$50,000. (2) The impact of the proposal on IRA marketing. We need your organization's assessment of the marketing impact of these changes as compared to current law. That is, would this scheme be easier or more difficult to explain than the current scheme? As a related matter, would administrative difficulties in determining IRA eligibility limit the actual contributions to IRAs even among those who would remain eligible? (3) The possible negative effect of the proposal on 401(k) plans. Please consider whether the proposal would have a negative impact upon participation in 401(k) plans and whether this should be a consideration in developing the Institute's position on this legislation. (4) The possibility that the offset will extend to other

plans. Although the current proposal would offset IRA contributions only with respect to salary reduction contributions, during the legislative process, other plan contributions could also be added to the list of offsetting contributions. (5) The possibility that the offset might be changed to a "first-dollar" offset. During the legislative process, the currently proposed "last-dollar" offset could be changed to a "first-dollar" offset, under which a \$2,000 401(k) or 403(b) contribution would eliminate the individual's ability to make any IRA contribution. We would also like to discuss the other aspects of the proposal and formulate a list of priorities for changes among these features. Please contact Theresa Brice at the Institute at (202) 955- - 2 - 3525 with the names of those from your organization who will attend the meeting on Tuesday. Remember that we will need your organization's vote on Tuesday.

Kathy D. Ireland Associate Counsel - Pension

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