

MEMO# 11079

June 28, 1999

INSTITUTE SUBMITS TESTIMONY TO WAYS AND MEANS COMMITTEE ON PENSION EXPANSION BILLS

[11079] June 28, 1999 TO: PENSION COMMITTEE No. 41-99 RE: INSTITUTE SUBMITS
TESTIMONY TO WAYS AND MEANS COMMITTEE ON PENSION EXPANSION BILLS

The Institute recently submitted written testimony to the House of Representatives' Committee of Ways and Means regarding retirement savings issues. In its written statement, the Institute expressed its support for various proposals included in H.R. 1102, the "Comprehensive Retirement Security and Pension Reform Act of 1999", which was introduced by Representative Portman (R-OH) and Representative Cardin (D-MD), and H.R. 1546, the "Retirement Savings Opportunity Act of 1999," which was introduced by Representative Thomas (R-CA). 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 H.R. 1546. 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: 1. 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 2. 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. Noting the low rate of small employer retirement plan coverage, the Institute supported enactment of legislation that would: 1. Reduce the cost of maintaining retirement plans by eliminating or modifying the top-heavy rule, which inhibits small employer plan formation; 2. Implement a tax credit program to induce small employers to establish a retirement plan

and to make contributions to the plan on behalf of lower-paid employees; and 3. Improve the Savings Incentive Match Plan for Employees (SIMPLE) program for small employers by permitting employees to defer annually up to \$10,000 and permit salary- reduction-only SIMPLE plans. IV. Simplify Unnecessarily Complicated Rules. The Institute indicated its support for legislative proposals that would simplify the rules applicable to employer-sponsored plans including proposals that would: 1. Provide a new automatic contribution trust nondiscrimination safe harbor for 401(k) plans; and 2. 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. Russell G. Galer Senior Counsel Attachment

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