

**MEMO# 13574**

June 1, 2001

## **ICI TESTIFIES AT IRS HEARING ON RMD RULES**

[13574] June 1, 2001 TO: PENSION COMMITTEE No. 35-01 PENSION OPERATIONS ADVISORY COMMITTEE No. 36-01 RMD REFORM AD HOC COMMITTEE RE: ICI TESTIFIES AT IRS HEARING ON RMD RULES The Internal Revenue Service held a hearing on its proposed regulations on required minimum distributions today. Chip Denkovich, ERISA/Benefits Counsel for Citigroup, Inc. testified on the Institute's behalf. A copy of the Institute's testimony is attached. We limited our testimony to concerns and suggestions regarding the new proposed reporting requirement that would be imposed on IRA trustees. We stated our support of the goals of the proposed reporting requirement – to improve compliance and further reduce the burden imposed on IRA owners and beneficiaries. However, we emphasized our concern that the reporting requirement would result in both the Service and a substantial number of taxpayers receiving inaccurate tax information, which will lead to more, not less, taxpayer confusion regarding RMD obligations. Our testimony included data regarding the population subject to the RMD rules. For instance, current census data indicate that 9% of the population, about 25 million Americans, is 70 years old or older. Approximately 16 million households have a head of household who is 70 years old or older and approximately 5.2 million of these households own an IRA subject to the RMD rules. ICI data indicates that the average IRA-owning household has two IRAs. The IRS reporting requirement would therefore result in IRA trustees performing over 10 million RMD calculations and issuing over 10 million RMD reports to an estimated 5 million households. Many of these reports would be incorrect. One example of a situation where IRA trustees would likely report an inaccurate RMD amount to IRA owners and the Service involves the spousal beneficiary exception. The number of IRA owners subject to this exception is quite significant. Over 14% of Americans aged 70 and older are married to a spouse more than 10 years younger. This represents approximately 2 million individuals. We estimated in our testimony that IRA trustees would likely issue close to 1 million RMD reports to households subject to the spousal beneficiary exception. We also highlighted the situation where a rollover crosses calendar years as another example of where IRA trustees would report an inaccurate RMD amount. When transfers occur at year-end, the IRA trustees will be unable to calculate an accurate RMD amount because the December 31 balance will not reflect the rollover amount. Our testimony also listed other problems that IRA trustees would face in reporting accurate RMD amounts including, lack of date of birth information for IRA owners and beneficiaries; death of account holder or beneficiary; multiple IRAs with multiple trustees; multiple IRAs and first year's calculations; and life events, including death, divorce and marriage that affect the RMD calculation. Accounting for just the spousal exception and the death rate for IRA owners aged 70 ½ and older, we estimated that IRA trustees would send 1 ½ to 2 million incorrect RMD reports annually. This number will certainly increase as the Baby Boomers reach retirement and become subject to the RMD rules. We also suggested

two reporting alternatives – the “notification” approach and the 1040 approach. Under the notification approach, trustees would be required to provide IRA owners and beneficiaries with information designed to notify them of the RMD rules and how to calculate the RMD amount. In addition, trustees would be required to provide the Service with available date of birth information for their IRA owners. Under the 1040 approach, taxpayers would include their dates of birth on Form 1040 and refer to worksheets to calculate their RMD amounts. Sixteen witnesses testified at today’s hearing. Ten witnesses opposed the proposed reporting requirement by IRA trustees including, the Institute, Randy Hardock of Davis & Harman (representing the Savings Coalition), James Szostek of Hartford Life (representing the American Benefits Council), Bill Starkey of Prudential Securities (representing the Securities Industry Association), Dan Wentworth of Fidelity Investments, Dennis Zuehlke of CUNA Mutual Group, Kathy Warmack of American Express (representing Savings Coalition), Laurie Lewis of American Council of Life Insurers, Joseph McKeever, III of Davis & Harman (representing the Committee of Annuity Insurers), and Victor Finman of Victor Finman, P.C. (consultant to IRA custodians). All of the witnesses cited the likelihood of inaccurate reporting as the biggest problem facing IRA trustees under the IRS’s reporting proposal. Other reasons for opposition to the reporting requirement included increased confusion by taxpayers receiving inaccurate and/or multiple RMD reports, increased costs to trustees and custodians and therefore, to IRA owners and erosion of public confidence in the tax reporting system. One witness, CUNA Mutual Group, opposed the reporting requirement, but suggested if the IRS were to require reporting, it would prefer a reporting system based on the Uniform Table and one in which IRA trustees were not held liable for inaccurate information provided by IRA owners. Present at the hearing were various representatives of the IRS and Treasury Department. Examples of the questions IRS and Treasury representatives asked some of the witnesses regarding the proposed reporting requirement included: (1) whether providing a basic calculation (based on the Uniform Table) would be helpful to IRA owners subject to the RMD rules, with appropriate caveats concerning the reasons the calculation could be incorrect; (2) whether compliance with the RMD rules could be increased if IRA trustees calculated and reported the RMD amounts; (3) whether IRA owners who received inaccurate RMD amounts would immediately notify their IRA trustees and provide them with correct information; and (4) how do IRA owners currently find out about the RMD rules? A copy of the hearing agenda and witness list is attached. Kathryn A. Ricard Associate Counsel Attachments Attachment no. 1 (in .pdf format)