

MEMO# 2958

July 26, 1991

INSTITUTE TESTIMONY ON PENSION SIMPLIFICATION LEGISLATION

July 26, 1991 TO: BOARD OF GOVERNORS NO. 54-91 PENSION COMMITTEE NO. 20-91 RE: INSTITUTE TESTIMONY ON PENSION SIMPLIFICATION LEGISLATION

Attached is a copy of the Institute's testimony before a House Ways and Means subcommittee on recent pension simplification legislation. (See Institute Memoranda to Pension Committee Nos. 15-91, 16-91, 17-91 and 19-91, dated June 24, 1991, June 25, 1991, June 26, 1991 and June 27, 1991, respectively.) The Institute's testimony during hearings held on July 25, 1991 focussed on supporting legislation which would (1) expand retirement plan coverage to additional workers and (2) preserve retirement plan assets for retirement. With regard to expanding retirement plan coverage, the Institute urged liberalizing the rules regarding salary reduction arrangements in simplified employee pensions ("SEPs"). This type of SEP is similar to a 401(k) plan, but the IRA is used as the funding vehicle. Specifically, the Institute supported legislation which would allow employers with 100 or fewer employees to establish salary reduction SEP arrangements. Under current law, these arrangements are limited employers with 25 or fewer employees. The Institute explained that nondiscriminatory participation in these programs by high and low paid workers could be achieved if employers are required to make limited matching contributions on behalf of those employees who participate in the salary reduction SEP. The Institute supported the use of this design-based nondiscrimination safe-harbor for 401(k) plans as well, in lieu of applying complex testing formulae now required for salary reduction SEPs and 401(k) plans. The Institute also supported legislation to encourage the use of prototype retirement plans to help expand pension access. However, the subcommittee was urged to be sensitive to the varied distribution channels by which mutual funds market their prototype plans. With regard to the preservation of retirement plan assets, the Institute supported legislation to encourage or require workers to transfer their pre-retirement pension plan distributions directly to an IRA. Finally, the Institute supported legislation to relax restrictions on retirement plan distributions which may be rolled over to an IRA, to the extent these amounts were not automatically transferred. We will keep you informed of further developments. W. Richard Mason Assistant Counsel - Pension Attachment