

MEMO# 9681

February 19, 1998

CONFERENCE CALL ON LEGISLATIVE PROPOSALS

[9681] VIA FAX ACTION REQUESTED February 19, 1998 TO: PENSION COMMITTEE No. 8-98
PENSION OPERATIONS ADVISORY COMMITTEE No. 7-98 RE: CONFERENCE CALL ON
LEGISLATIVE PROPOSALS

Numerous legislators, as well as the Clinton Administration, are developing legislative proposals to expand, simplify and/or address perceived inadequacies with regard to retirement savings. We have scheduled a conference call to discuss several significant proposals: (1) a simplified small employer defined benefit plan, (2) modification of the required minimum distribution rules and (3) catch-up contributions for 401(k) plans and IRAs. We seek your assistance to determine whether these proposals are desirable, identify technical and administrative concerns, and develop design details that would more feasibly implement each legislative concept. The conference call is scheduled for Friday, February 27, 1998 at 1:30 p.m. If you would like to participate in the call please fax the attached reply sheet to Theresa Brice at (202) 326- 5839. If you are unavailable for the conference call, please feel free to call either the undersigned at (202) 326-5835 or Kathryn Ricard at (202) 218-3563 with any comments. The following describes the proposals that will be discussed: 1. Simplified Defined Benefit Plan For Small Employers. This proposal appeared last year in legislation sponsored by Representatives Pomeroy (D-ND), Fawell (R-IL) and Johnson (R-CT). More recently, President Clinton has proposed a modified version of the program -- the Secure Money Annuity or Retirement Trust ("SMART") Plan. A description of the President's proposal is attached. We would like to (1) identify design concerns and possible solutions, (2) discuss the extent to which employers might fund the SMART plan with mutual funds, particularly in light of annuitization requirements, guaranteed annual return and PBGC premiums, and (3) consider whether this product would serve as a companion or competitor to the existing SIMPLE program. 2. Required Minimum Distribution Reform. The Small Business Job Protection Act of 1996 modified section 401(a)(9) of the Internal Revenue Code so that qualified plans need not require active employees who attain age 70½ to begin to receive plan distributions until actual retirement. The Roth IRA, established by the Taxpayer Relief Act of 1997, does not impose "RMD" requirements on accountholders, except upon death. These changes may set the stage for broader modification of the current RMD rule. One notable suggestion is to raise the required age at which distributions must begin to 75 and, perhaps, to alter the life expectancy tables on which distributions may be based. Is this a desirable change? What transition rules would be needed? What issues arise with regard to individuals already in pay status? To what extent would computer and other information systems need to be modified? Are there other modifications to the rules that should be considered? Would this change assist or hinder individuals' estate planning efforts? 3. Catch-up Provisions. Last year, legislation was filed

that would have permitted individuals to 'make-up' contributions to their 401(k) plan when they were prevented from participating in a plan in cases of maternity or paternity leave. The proposal also would have permitted individuals to make up contributions for time spent out of the workforce while raising children. Many expressed concern that while the concept was sound, the proposal itself would give rise to significant administrative burdens. In this legislative season, legislators are considering an alternative version of the "catch-up" concept: individuals who have attained a certain age would be permitted to make additional contributions to their plan. For example, an individuals at age 40 might be able to make an additional \$3,000 contribution to a plan; at age 50 an additional \$4,000 and at age 60 an additional \$5,000. Issues would include (1) administrative feasibility, (2) the role of nondiscrimination rules, if any, and (3) whether a similar program should be advocated for IRAs. Russell G. Galer Associate Counsel Attachments ATTENDANCE RESPONSE FORM INVESTMENT COMPANY INSTITUTE CONFERENCE CALL ON LEGISLATIVE PROPOSALS Friday, February 27, 1998 Please fax this portion by Thursday, February 26, , 1998 to Theresa Brice Investment Company Institute, 202-326-5841. Yes, I will participate in the Conference Call regarding Legislative Proposals on Friday, February 27, 1998 at 1:30 p.m. (EST)

_____	COMMITTEE MEMBER
_____	COMPANY NAME
_____	PHONE NUMBER

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