

MEMO# 2077

July 31, 1990

PRYOR INTRODUCES PENSION SIMPLIFICATION BILL

- 1 - July 31, 1990 TO: PENSION COMMITTEE NO. 18-90 RE: PRYOR INTRODUCES PENSION SIMPLIFICATION BILL _____ Senator David Pryor recently introduced S. 2901, the Employee Benefits Simplification Act, a bill to simplify several provisions of the Internal Revenue Code regarding qualified retirement plans and IRAs. A copy of the bill and the accompanying Record statement are attached. An identical companion bill was introduced in the House of Representatives by Ron Chandler. The bill addresses various provisions of the Code including the definitions of "highly compensated employee", "leased employee" and "compensation", the manner of calculating cost of living adjustments, the minimum participation rules of section 401(a)(26), and the discrimination rules under section 401(k). Half-year requirements (age 59-1/2 and 70-1/2) would be eliminated and all references would be to ages 59 and 70. Section 201 of the bill would substantially revise the distribution provisions under section 402 of the Code to generally allow rollovers in all circumstances, except for after tax employee contributions and required minimum distributions under section 401(a)(9). The bill would repeal 5 and 10 year averaging provisions, but would not repeal the grandfather provisions contained in the Tax Reform Act of 1986 for participants who attained age 50 before 1986. Section 202 of the bill would require IRA rollovers or plan-to-plan transfers of pre-retirement distributions. A new section 417A of the Code would be enacted to provide that any plan distribution in excess of \$500 must be transferred to an "eligible transferee plan" which is "an individual retirement plan designated by the employee in such form, and at such time, as the transferor plan may prescribe" or a successor employer's defined contribution plan. The bill also would increase the availability of salary reduction SEPs to employers with 100 employees and modify SEP participation requirements. - 2 - The Institute intends to submit written testimony regarding this proposed legislation. Therefore, please contact the undersigned at (202) 955-3516 no later than August 10, 1990 with any comments you may have. In particular, I would appreciate receiving your views on section 202 of the bill regarding the method by which an "eligible transferee plan" is selected, including any restrictions or limitations which should be contained in the legislation regarding the selection of an eligible transferee plan, and whether the \$500 threshold for required transfers is an appropriate amount. We will keep you informed of further developments. W. Richard Mason Assistant General Counsel Attachment