MEMO# 10847

March 31, 1999

CHAIRMEN OF SENATE FINANCE COMMITTEE AND SPECIAL AGING COMMITTEE INTRODUCE IMPORTANT RETIREMENT SAVINGS BILLS

1 See Memorandum to the Board of Governors No. 12-99, Federal Legislation Members No. 6-99, Pension Members No. 14-99, Pension Operations Advisory Committee No. 13-99, Primary Contacts – Member Complex No. 22-99, and Public Information Committee No. 7-99, dated March 8, 1999. [10847] March 31, 1999 TO: BOARD OF GOVERNORS No. 24-99 FEDERAL LEGISLATION MEMBERS No. 11-99 PRIMARY CONTACTS - MEMBER COMPLEX No. 35-99 PUBLIC INFORMATION COMMITTEE No. 13-99 RE: CHAIRMEN OF SENATE FINANCE COMMITTEE AND SPECIAL AGING COMMITTEE INTRODUCE IMPORTANT RETIREMENT SAVINGS BILLS ____ Leading Senate Committee chairmen have recently introduced two important retirement bills that would expand individual and employer-sponsored savings options for American workers. On March 17, Senate Finance Committee Chairman William Roth, Jr. (R-DE) and Senator Max Baucus (D- MT) introduced S. 646, the "Retirement Savings Opportunity Act of 1999." The legislation would significantly expand the IRA, Roth IRA, and 401(k) programs. On March 25, Senate Aging Committee Chairman Charles Grassley (R-IA) and Senator Bob Graham (D-FL) introduced a comprehensive retirement security bill, S. 741, the "Pension Coverage and Portability Act." Both bills have strong bipartisan support. "Retirement Savings Opportunity Act" (S. 646) S. 646 would substantially expand IRAs and other defined contribution retirement vehicles. The Institute testified in support of this bill at a February 24 Senate Finance Committee hearing.1 Specifically, the bill would: ! Raise contribution limits. The bill would increase the annual maximum contribution limits for IRAs and Roth IRAs to $5,000; for 401(k) and 403(b) plans to $15,000; for 457 plans to $12,000; and for SIMPLE plans to $10,000. ! Eliminate IRA and Roth IRA income limits. The bill would eliminate all income eligibility limits to make deductible IRA and Roth IRA contributions, and would raise the conversion cap from an adjusted gross income of $100,000 to $1,000,000. ! Allow catch-up contributions. The bill would permit individuals who are age 50 or older to increase their annual contribution to 401(k)s, 403(b)s, 457s, SIMPLEs, and IRAs by 50 percent above the proposed maximum contribution limit. ! Eliminate the 25-percent-of-compensation limit. S. 646 would eliminate the 25- percent-of-compensation limit on contributions to defined contribution plans. ! Create "Roth" 401(k) and 403(b) plans. The bill would permit employers to establish "qualified plus contribution programs," in which employees could make after-tax contributions to 401(k) and 403(b) plans—separate accounts that employers would be required to create for their employees. Qualified distributions from these Roth

accounts would not be taxable. ! Allow IRA contributions through employer plans. The bill would permit employers to accept employee IRA contributions as part of their qualified plan. ! Modify Section 404. The bill would modify Section 404 to permit employers to deduct 100 percent of employee pre-tax deferrals. ! Enhance small employer incentives. The bill would provide a tax credit of up to $500 to small businesses for start-up costs associated with a plan; it would provide other small employer incentives as well. “Pension Coverage and Portability Act” (S. 741) S. 741 would enhance employer-sponsored pension plans in a number of ways. It includes provisions that would: ! Increase pension portability. The bill includes provisions to permit workers who change jobs to roll over contributions among 401(k), 403(b), and 457 plans and IRAs; to allow individuals to roll over after-tax contributions; and to allow employees to waive anti-cut-back rules under certain circumstances when rolling one DC plan to another. ! Expand coverage for small businesses. The bill would increase SIMPLE 401(k) and IRA limits to $8,000 a year; modify top-heavy rules; establish a salary reduction SIMPLE plan; provide a small business pension start-up tax credit; clarify the rules on IRA payroll deductions; eliminate the IRS new plan fee for employers; and provide that elective deferrals should not be taken into account for the purposes of contribution limits. ! Expand availability of private pensions. The bill would eliminate the 25-percent-of- compensation limit; increase contribution limits for certain employer-sponsored retirement plans; increase the minimum distribution commencement date from 70 1/2 to 75; exclude up to $100,000 in defined contribution retirement assets from the minimum distribution rules; reduce the vesting period for matching contributions to three years; and clarify the tax treatment of employer- provided retirement planning. We will keep you informed of further developments. Matthew P. Fink President

---