

MEMO# 2852

June 25, 1991

PRYOR RELEASES DRAFT PENSION SIMPLIFICATION BILL

June 25, 1991 TO: PENSION COMMITTEE NO. 16-91 RE: PRYOR RELEASES DRAFT PENSION SIMPLIFICATION BILL _____ Senators Bentsen and Pryor recently released a draft explanation of their forthcoming Employee Benefits Simplification Act. A copy of the draft summary is attached. According to the draft, the bill will contain many of the same provisions which were introduced last year by Senator Pryor. (See Institute Memorandum to Pension Committee No. 18-90, dated July 31, 1990.) However, the new bill will incorporate the Institute's suggestion to modify the discrimination rules applicable to SARSEPs. (See Institute Memorandum to Pension Committee No. 4-91, dated February 22, 1991.) As recommended by the Institute, SARSEPs could be offered by employers with 100 or fewer employees. No minimum participation rules would apply. Discrimination rules would be satisfied if either (1) all participating non-highly compensated employees receive at least a 100 percent match on elective deferrals up to 3 percent of compensation, and at least a 50 percent match on elective deferrals of 3 to 5 percent of compensation or (2) all eligible non-highly compensated employees receive 3 percent of compensation. No matching contribution in excess of 6 percent of compensation is permitted and discriminatory matching formulas cannot be used. The revised SARSEP discrimination rules would mirror the proposed 401(k) discrimination rules under the bill. The bill would eliminate 5-year forward averaging. It would not repeal the special 10-year forward averaging grandfather rules provided under the Tax Reform Act of 1986. The bill would repeal all restrictions on rollovers from qualified plans to IRAs, except for required minimum distributions and after-tax contributions. The bill would contain a pension portability provision which requires amounts which would ordinarily be distributed to an employee (cash-outs and other pre-retirement distributions) to be transferred to an IRA or defined contribution plan selected by the participant. If the participant does not select an IRA or transferee defined contribution plan, or the selection is not practical, the distributing plan must contain a default IRA selection. We will keep you informed of further developments. W. Richard Mason Assistant Counsel - Pension Attachment