

MEMO# 15607

February 5, 2003

ADMINISTRATION UNVEILS SAVINGS AND RETIREMENT PROPOSAL

[15607] February 5, 2003 TO: BOARD OF GOVERNORS No. 4-03 FEDERAL LEGISLATION MEMBERS No. 1-03 PRIMARY CONTACTS - MEMBER COMPLEX No. 12-03 PUBLIC INFORMATION COMMITTEE No. 4-03 RE: ADMINISTRATION UNVEILS SAVINGS AND RETIREMENT PROPOSAL The President's FY 2004 budget, released on February 3, calls for the creation of three new savings vehicles: a Lifetime Savings Account (LSA), a Retirement Savings Account (RSA), and an Employer Retirement Savings Account (ERSA). Lifetime Savings Accounts are individual savings accounts that could be used for any type of saving. Taxpayers, regardless of age or income, would be able to make nondeductible contributions to an LSA of up to \$7,500 per year (indexed for inflation). No tax would be imposed on either earnings or distributions from an LSA. Distributions could be made at any time and for any reason. Also, LSAs would not be subject to required minimum distribution rules during the taxpayer's lifetime. Retirement Savings Accounts are individual accounts that could be used only for retirement savings. The RSA would effectively consolidate traditional IRAs, Roth IRAs, and nondeductible IRAs into a single account, which would be subject to rules generally similar to the rules currently applicable to Roth IRAs. RSAs would not be subject to income limits or required minimum distribution rules. Taxpayers, regardless of age or income, would be able to make nondeductible contributions to an RSA of up to \$7,500 per year (indexed for inflation). No tax would be imposed on either earnings or qualified distributions from an RSA after age 58. Traditional and nondeductible IRAs could be converted into RSAs at any time, but there would be no conversion requirement. If a taxpayer converted to an RSA prior to January 1, 2004, then he or she would be able to spread the tax on the conversion over a four-year period. For conversions on or after January 1, 2004, the total taxable amount would be included in the taxpayer's gross income for the year of conversion. Traditional and nondeductible IRAs not converted to RSAs would not be able to accept any new contributions, except for rollover contributions. New traditional IRAs could be created solely to accommodate rollovers from employer plans. Existing Roth IRAs would be unaffected, except that they would be renamed RSAs. 2 The President's proposal would consolidate 401(k), 403(b), and governmental 457 plans, as well as SARSEPs and SIMPLE IRAs into a single employer-sponsored account called an Employer Retirement Savings Account, which could be sponsored by any employer. An employee would be able to make a pre-tax contribution of up to \$12,000 per year (increasing to \$15,000 by 2006) plus, once the employee reaches age 50, a catch-up contribution of \$2,000 (increasing to \$5,000 by 2006). Beginning in 2004, all 401(k) plans would become ERSAs. SIMPLE IRAs, SARSEPs, 403(b), and governmental 457 plans could continue indefinitely, but could not accept any future contributions after 2004. ERSAs would be subject to simplified versions of the existing rules applicable to 401(k) plans. Both the definition of compensation and the minimum coverage requirement would be simplified and

the top-heavy rules would be repealed. Nondiscrimination requirements for ERSA contributions would be significantly simplified. The Institute strongly supports the Administration's proposal and is seeking its enactment. An opinion¹ piece appeared in USA Today on February 5. We will keep you informed of further developments. Matthew P. Fink
President 1 Available on USA Today's website at
http://www.usatoday.com/news/opinion/editorials/2003-02-04-oppose_x.htm

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