

MEMO# 12582

September 12, 2000

SENATE FINANCE COMMITTEE UNANIMOUSLY APPROVES BILL TO ENHANCE IRAS AND PENSION PLANS

[12582] September 12, 2000 TO: BOARD OF GOVERNORS No. 52-00 FEDERAL LEGISLATION MEMBERS No. 13-00 PRIMARY CONTACTS - MEMBER COMPLEX No. 60-00 PUBLIC INFORMATION COMMITTEE No. 33-00 RE: SENATE FINANCE COMMITTEE UNANIMOUSLY APPROVES BILL ENHANCING IRAs AND PENSION PLANS On September 7, the Senate Finance Committee by a 19-0 unanimous vote approved H.R. 1102, a bill to increase the annual IRA and employer pension plan contribution limits. With respect to IRA provisions, the "Retirement Security and Savings Act of 2000," would: • raise the annual limit on IRA contributions for persons under 50 to \$3,000 in 2001, to \$4,000 in 2002, and to \$5,000 thereafter; • allow persons 50 and older to contribute an additional 50% beginning in 2001; • index the IRA limit (in \$500 increments) in 2004 and thereafter; • increase the income eligibility limitations for deductible IRAs between 2001 and 2006; • increase the income eligibility limitations for Roth IRAs for couples to double that of individuals (i.e., to \$190,000 from the present \$150,000); • increase from \$100,000 to \$200,000 the income limit on eligibility for couples to be able to convert a traditional IRA into a Roth IRA. The pension provisions in the bill would: • increase contribution limits for 401(k), 403(b) and 457 plans in stages to \$15,000; • increase contribution limits for SIMPLE plans in stages to \$10,000; • eliminate the 25% of compensation requirements for plans; • make pensions more portable; • allow additional pension contributions up to 50% more than the plan's contribution limit for persons 50 and older; • narrow the definition of a top-heavy plan; • reduce regulatory burdens; • permit 401(k) and 403(b) plans to allow participants to make after-tax contributions whose eventual distribution would be taxed similar to Roth IRA contributions; and 2 • provide tax credits for small businesses establishing pension plans, and for small businesses matching contributions to employee plans. The Finance Committee bill also includes a new subsidy for lower income persons making contributions to IRAs and employer pension plans. The subsidy, in the form of a tax credit, would in effect increase the tax benefits for contributing to an IRA or an employer pension plan. The credit would be available to individuals with income up to \$25,000 and couples with income up to \$50,000. The House approved a similar, but not identical, bill in July by a 401-25 vote.¹ We will keep you informed of further developments as this legislation moves forward. Matthew P. Fink President 1 See Memorandum to the Board of Governors No. 43-00, Federal Legislation Members No. 10-00, Primary Contacts- Member Complex No. 49-00, and Public Information Committee No. 30-00.

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