

MEMO# 9016

June 27, 1997

HOUSE AND SENATE PASS THEIR VERSIONS OF TAX BILLS INCLUDING PENSION REFORMS

1 See Institute Memorandum to Pension Members No. 24-97, Tax Members No. 22-97, Operations Committee No. 18-97, Pension Operations Advisory Committee No. 18-97, Transfer Agent Advisory Committee No. 28-97, dated June 20, 1997. June 27, 1997 TO: PENSION MEMBERS No. 25-97 TAX MEMBERS No. 25-97 OPERATIONS COMMITTEE No. 22-97 PENSION OPERATIONS ADVISORY COMMITTEE No. 19-97 TRANSFER AGENT ADVISORY COMMITTEE No. 31-97 RE: HOUSE AND SENATE PASS THEIR VERSIONS OF TAX BILLS INCLUDING PENSION REFORMS

On June 27, the Senate approved, by a vote of 80-18, its version of the Revenue Reconciliation Act of 1997, H.R. 2014. With the exception of amendments identified below, the pension provisions included in the bill are substantially similar to the bill approved by the Senate Finance Committee on June 20. Please refer to our memorandum of June 20 for a description of the relevant pension provisions.¹ This bill differs from the House bill, also discussed below, and the two bills will need to be reconciled in conference, scheduled to convene in July. As previously reported, the Senate bill would (1) create the back-loaded "IRA Plus" in lieu of the present-law nondeductible IRA, (2) enable individuals to establish Education IRAs, (3) gradually double the income limitations applicable to deductible IRA eligibility, (4) remove spousal plan participation as a criteria for deductible IRA eligibility, (5) permit penalty-free withdrawals from IRAs for higher education expenses, first-time home purchase and cases of long-term unemployment, (6) no longer require treatment of matching contributions subject to the section 401(k) and SIMPLE IRA plans for self-employed individuals as elective deferrals subject to the section 402(g) deferral limit, (7) repeal the Code section 4980A 15% excess distributions and accumulation tax, (8) require spousal consent for loans and distributions other than those in the form of periodic payments from section 401(k) plans, and (9) include other pension simplification provisions described in our June 20 memorandum. ² See Institute Memorandum to Pension Members No. 23-97, Tax Members No. 20-97, Operations Committee No. 17-97, Transfer Agent Advisory Committee No. 26-97, and Pension Operations Advisory Committee No. 17-97, dated June 13, 1997. - 2 - Additionally, please note the following pension provisions were added to the Senate bill by floor vote: (1) Provisions that would permit penalty-free withdrawals from IRAs (a) for certain disaster-related expenses, including payments used to pay for the repair or replacement of tangible property which is disaster-damaged and (b) for adoption expenses; (2) A provision that would permit the use of Education IRA account funds for primary and secondary school expenses, in addition to its use for higher education expenses; (3) A

provision that would limit the ability of employers to require that employee elective deferrals be invested in employer securities or real property. Similarly, the House of Representatives on June 26 approved, by a vote of 253-179, its version of H.R. 2014. With regard to the pension provisions in this bill, it is substantially similar to the bill that was voted on by the House Ways & Means Committee on June 13. Please refer to our memorandum of June 13 describing the relevant pension provisions.² Most significantly, this bill would (1) create the back-loaded "American Dream IRA," a new IRA vehicle that replaces the nondeductible IRA, (2) enable individuals to establish tax- advantaged Education Investment Accounts, (3) permit penalty-free withdrawals from IRAs for the payment of higher education expenses, and (4) include technical corrections relating to SIMPLE plans. Representatives of the House and Senate are scheduled to meet after the July 4 recess to reconcile the differences in the bills, including these pension provisions. Copies of statutory provisions and/or committee report language for either bill may be obtained by calling the Institute's Information Resource Center. We will keep you informed of developments. Russell G. Galer Assistant Counsel - Pension

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