MEMO# 10818

March 22, 1999

SENATOR ROTH INTRODUCES IRA AND 401(K) EXPANSION BILL

[10818] March 22, 1999 TO: PENSION COMMITTEE No. 19-99 PENSION OPERATIONS ADVISORY COMMITTEE No. 19-99 RE: SENATOR ROTH INTRODUCES IRA AND 401(k) EXPANSION BILL

____ Senator Roth (R-DE) and Senator Baucus (D-MT) recently introduced S. 646, the "Retirement Savings Opportunity Act of 1999." This bill proposes to significantly expand the IRA, Roth IRA and 401(k) programs and contains many proposals that have been advocated by the Institute. Among other things, the bill would substantially raise contribution limits to $15,000 for 401(k)s and $5,000 for IRAs, permit individuals age 50 and older to make additional "catch-up" contributions to IRAs and 401(k) plans, eliminate Code section 415's 25% of compensation limitation on contributions and remove income limits that currently apply to IRA programs. Each of these proposals have the support of the Institute. Specifically, the bill includes the following proposals: I. Raising Contribution Limits The bill would increase (1) the IRA and Roth IRA annual maximum contribution limit from $2,000 to $5,000 and index the limit for inflation in $100 increments; (2) the 401(k) and 403(b) contribution limit from $10,000 to $15,000; (3) the 457 plan contribution limit from $8,000 to $12,000; and (4) the SIMPLE limit from $6,000 to $10,000. II. Elimination of IRA/Roth IRA Income Limits The bill would eliminate all income limitations on eligibility to make deductible IRA contributions and Roth IRA contributions. Additionally, the $100,000 AGI cap on eligibility to convert IRAs to Roth IRAs would be raised to $1,000,000. III. Catch-up Provisions The bill would permit individuals who are age 50 or greater to increase their annual contribution to 401(k)s, 403(b)s, 457s and IRAs by 50% above the maximum contribution limit. Thus, for example, such individuals could contribute up to $22,500 ($15,000 plus $7,500) to a 401(k) plan and up to $7,500 ($5,000 plus $2,500) to an IRA or Roth IRA. Catch-up contributions would not be subject to anti-discrimination testing. IV. Elimination of 25% of Compensation Limitation The bill would eliminate Code section 415's 25% of compensation limit on contributions to defined contribution plans. 2V. Creation of "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 "plus" programs, i.e., "Roth" 401(k) and 403(b) plans. The bill would require employers to establish separate accounts for "plus" programs' contributions and earnings attributable to each employee. An employee's elective deferral contributions together with "plus" program contributions could not exceed the Code section 402(g) limit. The bill would permit rollovers of "plus" accounts to another designated "plus" account or a Roth IRA. Qualified distributions from a "plus" account would not be taxable. The 5-year aging period applicable to qualified distributions from "plus" accounts would begin with the earlier of the first taxable year in which the taxpayer made a designated "plus" contribution to any "plus" account or the first taxable year in which the taxpayer or taxpayer's spouse made a contribution to a Roth IRA for that individual. Aggregation rules under Code section 72 would be applied separately to distributions from designated "plus" accounts and payments from the plan. Employers would also be required to report "plus" account contributions on employee's Form W-2. The effective date for this provision would be for plan years beginning after December 31, 2000. "Conversions" of non-plus accounts to "plus accounts" would not be permitted. VI. Contribution to IRAs Through Employer Plans The bill would permit employers to accept employee IRA contributions as part of their qualified plan. VII. Modification of Section 404 The bill would modify section 404 of the Code to permit employers to deduct 100% of employee pre-tax deferrals. Other employer contributions to the plan would continue to be subject to the current deduction limitation. VIII. Small Employer Initiatives The bill would provide a tax credit of up to $500 to small businesses of up to 100 employees for start-up costs associated with a plan. The bill would also provide a tax credit of up to 50% of employer contributions made on behalf of non-highly compensated employees for small business with up to 50 employees. Finally, the bill would create a simplified defined benefit plan for small employers, the SAFE plan. 3IX. Defined Benefit Plan Issues The bill would eliminate the "150% of current liability" funding limit on defined benefit plans. A copy of the bill is attached. Kathryn A. Ricard Assistant Counsel Attachment

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