

MEMO# 7128

July 25, 1995

PRYOR-HATCH PENSION SIMPLIFICATION BILL INTRODUCED

July 25, 1995 TO: PENSION COMMITTEE No. 13-95 RE: PRYOR-HATCH PENSION
SIMPLIFICATION BILL INTRODUCED

Senators

Pryor and Hatch have recently introduced the attached "Pension Simplification Act of 1995". This bill includes many of the simplification proposals included in a bill previously passed by the Congress and vetoed by President Bush in 1992. (See Institute Memorandum to Pension Members No. 26-92, dated October 8, 1992.) It also includes several new provisions that target retirement plans for small businesses. Some of the major provisions of S. 1006 would: 1) permit the use of non-discrimination safe harbors for 401(k) plans providing either a minimum three percent of compensation contribution for all participants or providing matching contributions of 100 percent of the first three percent and 50 percent of the next two percent of employee deferrals, if employer contributions are fully vested and subject to withdrawal restrictions; 2) provide a maximum \$1,000 tax credit for start-up expenses of businesses with 50 or fewer employees that establish a retirement plan; 3) expand the availability of the SARSEP to employers with 100 or fewer employees; 4) permit SARSEPs to use the two design-based safe harbors provided under the bill for 401(k) plans; 5) eliminate the 50 percent participation requirement for SARSEPs; 6) exempt small businesses from the top heavy rules for any year following a year in which no employee earned over \$80,000; and 7) repeal the combined plan limit in Code section 415(e) for employees participating in both a defined benefit and a defined contribution plan. We will keep you informed of progress on this legislation. Catherine L. Heron Vice President and Senior Counsel Attachment