INVESTMENT COMPANY INSTITUTE

MEMO# 7825

May 2, 1996

SENATOR KENNEDY BILL PROPOSES ""INDIVIDUAL PENSION PLANS""

May 2, 1996 TO: PENSION COMMITTEE No. 15-96 RE: SENATOR KENNEDY BILL PROPOSES "INDIVIDUAL PENSION PLANS" ____ Senator Kennedy (D. MA) has introduced S. 1668, the American Workers Economic Security Act. Title II of the bill, called the Workers Pension Act of 1996, would mandate that employers implement a payroll deduction mechanism to enable individual employees to contribute to "individual pension plans." Any employee with earned income reportable as wages would be eligible to establish such a plan and request an employer make payroll deductions and transfer them to the individual pension plan. These contributions would be tax-deductible in amounts up to the maximum dollar amount permitted for section 401(k) plans offset by contributions to another retirement plan. Under the proposal, employer responsibilities would be limited to (1) notifying employees of their right to make payroll deductions for an individual pension plan, (2) providing an explanation of how to establish such a plan, (3) providing information developed by the U.S. Treasury on available qualifying institutions, investment options and institutional performance data, and (4) making requested payroll deductions and remitting them to either the individual pension plan of each employee or a "regional pension center." Employers would not have ERISA fiduciary responsibilities. The plans would be made available by qualifying institutions such as banks, insurance companies, mutual funds, labor unions, Taft-Hartley plans or organizations responsible for employer-sponsored pension funds. Qualifying institutions would have fiduciary duties under ERISA, maintain a written plan document and have reporting and filing obligations. Under the bill, the Secretary of the Treasury is directed to specify at least three standard plans that must be made available by each qualifying institution, establish national standards and procedures to be followed by employers, qualifying institutions and regional pension centers, establish limits on charges and fees and license qualifying institutions. A "regional pension center" is a specific organization with which the Treasury would contract to serve as a clearing facility for a single region. These centers would receive payroll deductions and forward them to qualifying institutions for deposit in individual pension plans, thereby providing an employer with a single place to which it could remit payroll deductions. - 2 - The bill also provides for the establishment of "Supplementary Social Security Accounts" by the Commissioner of Social Security. Such accounts would function like the individual pension plans, except the assets would be invested in U.S. Treasury securities, and the Social Security Administration would maintain the individual accounts. The relevant portions of the bill are attached. We will keep you informed of developments. Russell G. Galer Assistant Counsel - Pension Attachments