

MEMO# 10887

April 12, 1999

INSTITUTE SUBMITS TESTIMONY ON HEARING ON PENSION ISSUES

[10887] April 12, 1999 TO: PENSION COMMITTEE No. 24-99 RE: INSTITUTE SUBMITS TESTIMONY ON HEARING ON PENSION ISSUES

The Institute recently submitted written testimony to the Committee of Ways and Means' Subcommittee on Oversight for its hearing on pension issues. In this written statement, the Institute indicated its support for several retirement security provisions, including those included in H.R. 1102, the "Comprehensive Retirement Security and Pension Reform Act of 1999" introduced by Representative Portman (R-OH) and Representative Cardin (D-MD). Specifically, the Institute urged Congress to: (1) establish appropriate and effective retirement savings incentives; (2) enact savings proposals that reflect workforce trends and savings patterns; (3) reduce unnecessary and cumbersome regulatory burdens that deter employers - especially small employers - from offering retirement plans; and (4) keep the rules simple and easy to understand.

I. Increased Contribution Limits. The Institute recommended that Congress update the rules governing contribution limits to employer-sponsored plans and IRAs. With respect to contributions limits applicable to 401(k), 403(b) and 457 plans, the Institute supported the provisions included in H.R. 1102, which would raise those limits to \$15,000. In addition, the Institute supported the repeal of the "25% of compensation" limitation on contributions to defined contribution plans. The Institute also urged Congress to raise the \$2,000 IRA limit, which has not increased since 1981. Although H.R. 1102 includes a provision to increase the IRA contribution limit, it would apply only to deductible IRA contributions.

II. Savings Proposals that Reflect Workforce Trends and Savings Patterns. The laws governing pension plans must allow workers to consolidate their retirement accounts as they move from employer to employer and be flexible enough to allow working Americans to make additional contributions when they can afford to do so. With respect to these issues, the Institute recommended the following:

1. Facilitate retirement account portability by allowing individuals in any type of individual account program (including 401(k), 403(b), 457 and IRAs) to move assets among these programs as they move from employer to employer over the course of their career.
2. Permit "catch-up" contributions, to enable individuals age 50 and older to increase their annual contributions to employer-sponsored plans and IRAs.

III. Small Employer Retirement Plan Coverage. The Institute noted that the low rate of small employer retirement plan coverage is a matter of serious public concern. The Institute recommended the following initiatives:

1. Reduce the cost of maintaining retirement plans by eliminating or modifying the top-heavy rule, which inhibits small employer plan formation.
2. Consider a tax incentive to induce small employer to establish plans, including a tax-credit for start-up expenses.
3. Improve the Savings Incentive Match Plan for Employees (SIMPLE) program for small employers by permitting employees to defer annually up to the \$10,000 limit applied to 401(k) plans. In

addition, the Institute supported the provision in H.R. 1102 that would permit salary-reduction-only SIMPLE plans. IV. Simplify Unnecessarily Complicated Rules. The Institute indicated its support for those provisions contained in H.R. 1102 that would simplify the rules applicable to IRAs and employer-sponsored plans including the following: 1. Simplify the required minimum distribution rules for distributions from IRAs and employer-sponsored plans by exempting the first \$100,000 of assets accumulated in an individual's IRAs and the first \$100,000 accumulated in an individual's defined contribution plans from the rule. 2. Provide a new automatic contribution trust nondiscrimination safe harbor for 401(k) plans. 3. Modify the anticutback rules under section 411(d)(6) to permit plan sponsors to change the forms of distributions offered in their retirement plans. A copy of the testimony is attached. Kathryn A. Ricard Assistant Counsel Attachment

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.