

MEMO# 2516

February 4, 1991

PACKWOOD INTRODUCES PRIME RETIREMENT ACCOUNT ACT

February 4, 1991 TO: PENSION COMMITTEE NO. 2-91 RE: PACKWOOD INTRODUCES PRIME RETIREMENT ACCOUNT ACT _____ As we anticipated at the last pension committee meeting, Senator Packwood introduced S. 318, the PRIME Retirement Account Act of 1991, on January 31, 1991. The PRIME account is intended to be a savings program for employers who normally employ fewer than 100 employees. All employees who are reasonably expected to work at least 1,000 hours annually will be permitted to contribute up to \$3,000 annually to their PRIME account through salary reduction and their employer will be required to match the employee's contribution up to the lesser of \$3,000 or 3 percent of compensation. The PRIME account program has no discrimination rules and is specifically exempted from ERISA. Although a form of IRA, PRIME accounts could not be commingled with regular IRA funds. All PRIME account funds initially would be deposited into an individual's PRIME account as selected by the individual's employer. The trustee or custodian of the PRIME account would be required to provide each employee with quarterly statements disclosing account activity and a summary description containing the name and address of the employer and trustee, the requirements for eligibility and participation, the benefits provided with respect to the arrangement, the time and method of making elections, and the procedures for and effects of withdrawals from the PRIME account. The bill contains a penalty of \$100 per day for each day that the trustee fails to provide such statements. Individuals will be able to transfer PRIME account funds to other PRIME accounts of their own selection by rollover or trustee-to-trustee transfer. Any amounts withdrawn from a PRIME account within the first 3 years after the employee first made salary reduction contributions under a PRIME program would be subject to a 25 percent penalty rather than the otherwise applicable 10 percent penalty under Section 72(t) of the Code. An advance copy of S. 318 and the Congressional Record statement regarding the bill is attached. Note that the bill as introduced differs from the advance copy by the additional first section which reads, "This Act may be cited as the "PRIME Retirement Account Act of 1991". We will keep you informed of further developments. W. Richard Mason Assistant General Counsel Attachments