



Joint Committee on Taxation
July 11, 2000
JCX-68-00

SUMMARY OF THE “COMPREHENSIVE RETIREMENT SECURITY AND PENSION REFORM ACT”

A. Individual Retirement Arrangements (“IRAs”)

- Increase in IRA contribution limit.--The proposal would increase the annual dollar IRA contribution limit from \$2,000 to \$3,000 in 2001, \$4,000 in 2002, and \$5,000 in 2003, with indexing thereafter.
- Catch-up contributions.--The proposal would accelerate the increase of the IRA maximum contribution limit for individuals age 50 and older. The limit for such individuals would be \$5,000 beginning in 2001, with indexing after 2003.

B. Expanding Coverage

- Increase contribution and benefit limits.--Beginning in 2001, the proposal would increase the dollar limit on annual elective deferrals under section 401(k) plans, section 403(b) annuities, and salary reduction SEPs in \$1,000 annual increments until the limits reach \$15,000 in 2005. Beginning in 2001, the proposal would increase the maximum annual elective deferrals that may be made to a SIMPLE plan in \$1,000 annual increments until the limit reaches \$10,000 in 2004. The \$15,000 and \$10,000 dollar limits would be indexed in \$500 increments, as under present law. The proposal would increase the dollar limit on deferrals under a section 457 plan to \$11,000 in 2001, \$12,000 in 2002, \$13,000 in 2003, \$14,000 in 2004 and \$15,000 in 2005. After 2005, the limit would be indexed in \$500 increments. The limit would be twice the otherwise applicable dollar limit in the three years prior to retirement. Effective in 2001, the proposal would: increase the \$135,000 annual benefit limit for defined benefit plans to \$160,000 (indexed in \$5,000 increments) and lower the early retirement age to 62 and the normal retirement age to 65 for purposes of applying the limit; increase the \$30,000 annual contribution limit for defined contribution plans to \$40,000 (indexed in \$1,000 increments); and increase the limit on compensation that may be taken into account under a plan to \$200,000 (indexed in \$5,000 increments).
- Plan loans for subchapter S shareholders, partners, and sole proprietors.--The proposal generally would eliminate the special present-law rules relating to plan loans made to an owner-employee. Thus, the general statutory exemption would apply to such transactions. Present law would apply with respect to IRAs. The proposal would be effective with respect to loans made in years beginning after December 31, 2000.

- Modification of top-heavy rules.--The proposal would provide that a safe-harbor section 401(k) plan is not a top-heavy plan and that matching contributions may be taken into account in satisfying the minimum contribution requirements. In addition, the proposal would simplify the definition of key employee and the determination of top-heavy and status and would repeal the family attribution rule used to determine whether an individual is a key employee by reason of being a 5-percent owner of the employer. The proposal would be effective for years beginning after December 31, 2000.
- Elective deferrals not taken into account for purposes of deduction limits.--The proposal would provide that elective deferral contributions are not subject to the qualified plan deduction limits, and the application of a deduction limitation to any other employer contribution to a qualified retirement plan would not take into account elective deferral contributions. The proposal would be effective for years beginning after December 31, 2000.
- Repeal of coordination requirements for deferred compensation plans of State and local governments and tax-exempt organizations.--For years beginning after December 31, 2000, the proposal would repeal the rules coordinating the section 457 dollar limit with contributions under other types of plans.
- Eliminate IRS user fees for determination letter requests regarding small employer plans.-
-Under the proposal, an employer with no more than 100 employees would not be required to pay a user fee for any determination letter request made during the first 5 plan years with respect to the qualified status of a retirement plan that the employer maintains. The proposal would be effective for determination letter requests made after December 31, 2000.
- Deduction limits.--The proposal would provide that, for purposes of the qualified plan deduction limits, the compensation otherwise paid or accrued during the employer's taxable year to the beneficiaries under the plan includes elective deferrals under a section 401(k) plan or a section 403(b) annuity, elective contributions under a section 457 plan, and salary reductions under a section 125 plan. In addition, the proposal would increase the limit on deductible contributions under a profit-sharing or stock bonus plan from 15 percent to 20 percent of the compensation of the employees covered by the plan. The proposal would be effective for years beginning after December 31, 2000.
- Option to treat elective deferrals as after-tax contributions.--The proposal would provide that a section 401(k) plan or a section 403(b) annuity may permit a participant to elect to have all or a portion of the participant's elective deferrals under the plan treated as "designated plus contributions." Designated plus contributions would be includible in income; a qualified distribution from a participant's designated plus contributions account would not be includible in the participant's gross income. Designated plus

contributions would generally otherwise treated the same as elective deferrals for purposes of the qualified plan rules. The proposal would be effective for taxable years beginning after December 31, 2000.

C. Enhancing Fairness for Women

- Additional catch-up contributions.--The proposal would permit individuals who are age 50 or older to make additional contributions to a section 401(k) (or similar plan). The maximum permitted additional contribution would be \$5,000 (indexed in 2006 and thereafter). Catch-up contributions to a section 401(k) (or similar) plan would not be subject to any other contribution limits, would not be taken into account in applying other contribution limits, and would not be subject to nondiscrimination rules.
- Equitable treatment for contributions of employees to defined contribution plans.--The proposal would (1) increase the 25 percent of compensation limitation on annual additions under a defined contribution plan to 100 percent, (2) conform the limits on contributions to a tax-sheltered annuity to the limits applicable to tax-qualified plans, and (3) increase the 33-1/3 percent of compensation limitation on deferrals under a section 457 plan to 100 percent of compensation. The proposal would be effective for years beginning after December 31, 2000.
- Faster vesting of employer matching contributions.--Under the proposal, employer matching contributions would have to vest at least as rapidly as under 3-year cliff vesting or under 6-year graded vesting that provides for a nonforfeitable right to 20 percent of employer matching contributions for each year of service beginning with the participant's second year of service and ending with 100 percent after 6 years of service. The proposal would be effective for plan years beginning after December 31, 2000, with a delayed effective date for plans maintained pursuant to a collective bargaining agreement.
- Simplify and update the minimum distribution rules.--The proposal would apply the present-law rules applicable if the participant dies before distribution of minimum benefits has begun to all post-death distributions. The proposal would reduce the excise tax on failures to satisfy the minimum distribution rules to 10 percent of the amount that was required to be distributed but was not distributed. The Treasury would be directed to update, simplify, and finalize the regulations relating to the minimum distribution rules. The proposal would repeal the special minimum distribution rules applicable to section 457 plans. The proposal would be effective for years beginning after December 31, 2000.
- Clarification of tax treatment of division of section 457 plan benefits upon divorce.--The proposal would apply the taxation rules for qualified plan distributions pursuant to a QDRO to distributions made pursuant to a domestic relations order from a section 457 plan. In addition, a section 457 plan would not be treated as violating the restrictions on distributions from such plans due to payments to an alternate payee under a QDRO. The

proposal would be effective for transfers, distributions and payments made after December 31, 2000.

- Modification of safe harbor relief for hardship withdrawals from 401(k) plans.--The proposal would direct the Secretary of the Treasury to revise the applicable regulations to reduce from 12 months to 6 months the period during which an employee must be prohibited from making elective contributions and employee contributions in order for a distribution to be deemed necessary to satisfy an immediate and heavy financial need. The proposal would be effective for years beginning after December 31, 2000.

D. Increasing Portability for Participants

- Rollovers of retirement plan and IRA distributions.--The proposal would provide that eligible rollover distributions from qualified retirement plans, section 403(b) annuities, IRAs and governmental section 457 plans generally can be rolled over to any of such plans or arrangements. The direct rollover and withholding rules would be extended to distributions from a governmental section 457 plan. The proposal would provide that employee after-tax contributions can be rolled over into another qualified plan or a traditional IRA. In the case of a rollover from a qualified plan to another qualified plan, the rollover would be permitted only through a direct rollover. The proposal would provide that surviving spouses can roll over distributions to a qualified plan, section 403(b) annuity, or governmental section 457 plan in which the spouse participates. The proposal would be effective for distributions made after December 31, 2000.
- Waiver of 60-day rule.--The proposal would provide that the Secretary may waive the 60-day rollover period if the failure to waive such requirement would be against equity or good conscience, including cases of casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement. The proposal would apply to distributions made after December 31, 2000.
- Treatment of forms of distribution.--Under the proposal, if certain requirements are satisfied, a defined contribution plan would be permitted to eliminate optional forms of benefit (1) in connection with certain transfers of benefits, or (2) if a single sum distribution is offered. In addition, the Secretary would be directed to provide for circumstances under which early retirement benefits, retirement-type subsidies, or an optional form of benefit may be reduced or eliminated if the rights of participants are not materially affected. The proposal would be effective for years beginning after December 31, 2000.
- Rationalization of restrictions on distributions.--The proposal would modify the distribution restrictions applicable to section 401(k) plans, section 403(b) annuities, and section 457 plans to provide that distribution may occur upon severance from employment rather than separation from service. The proposal would be effective for

distributions after December 31, 2000.

- Purchase of service credit under governmental pension plans.--Under the proposal, a participant in a State or local governmental plan would not be required to include in gross income a direct trustee-to-trustee transfer to a governmental defined benefit plan from a section 403(b) annuity or a section 457 plan if the transferred amount is used (1) to purchase permissive service credits under the plan, or (2) to repay certain contributions. The proposal would be effective for transfers after December 31, 2000.
- Employers may disregard rollovers for purposes of cash-out rules.--Under the proposal, a plan would be permitted to disregard benefits attributable to rollover contributions for purposes of the cash-out rules. The proposal would be effective for distributions after December 31, 2000.

E. Strengthening Pension Security and Enforcement

- Phase in repeal of 150 percent of current liability funding limit; deduction for contributions to fund termination liability.--Under the proposal, the current liability full funding limit would be 160 percent of current liability for plan years beginning in 2001, 165 percent for plan years beginning in 2002, and 170 percent for plan years beginning in 2003. The current liability full funding limit would be repealed for plan years beginning in 2004 and thereafter. The special rule allowing a deduction for unfunded current liability generally would be extended to all defined benefit pension plans covered by the PBGC. The proposal would be effective for years beginning after December 31, 2000.
- Excise tax relief for sound pension funding.--Under the proposal, if an employer elects, contributions in excess of the current liability full funding limit would not be subject to the excise tax on nondeductible contributions. The proposal would be effective for years beginning after December 31, 2000.
- Notice of significant reduction in plan benefit accruals.--The proposal would require the plan administrator of a defined benefit plan (other than governmental plans and certain church plans) with more than 100 participants to notify plan participants in advance of an amendment that significantly reduces the rate of future benefit accruals. The notice would be required to include sufficient information to allow participants to understand how the amendment will affect different classes of employees. In some cases, additional information would be required to be provided after the amendment would be effective. An excise tax would apply if the required notice is not provided. The proposal generally would be effective for plan amendments taking effect after the date of enactment.
- Modifications to section 415 limits for multiemployer plans.--The proposal would modify the section 415 limits for multiemployer plans. The proposal would be effective for years beginning after December 31, 2000.

- Prohibited allocations of stock in an S corporation ESOP.--Under the proposal, if there is a prohibited allocation of stock to a disqualified individual under an ESOP sponsored by an S corporation at least 50 percent of which is owned by disqualified individuals: (1) an excise tax would be imposed on the employer equal to 50 percent of the amount involved in the prohibited allocation; and (2) the stock allocated in the prohibited allocation would be treated as distributed to the disqualified individual. An excise tax would also be imposed with respect to synthetic equity held during a nonallocation year. The provision would generally be effective with respect to years beginning after December 31, 2001. In the case of an ESOP established after July 11, 2000, or an ESOP established on or before such date if the employer maintaining the plan was not an S corporation on such date, the provision would be effective with respect to plan years ending after July 11, 2000.

F. Reducing Regulatory Burdens

- Modification of timing of plan valuations.--The proposal would permit a defined benefit plan with assets of at least 125 percent of current liability to use a valuation date within the prior plan year. The proposal would be effective for plan years beginning after December 31, 2000.
- ESOP dividends may be reinvested without loss of dividend deduction.--Under the proposal, an employer would be entitled to deduct dividends that, at the election of plan participants or their beneficiaries, are paid to the plan and reinvested in employer securities. The proposal would be effective for taxable years beginning after December 31, 2000.
- Repeal transition rule relating to certain highly compensated employees.--The proposal would repeal the special definition of highly compensated employee under the Tax Reform Act of 1986. The proposal would be effective for plan years beginning after December 31, 2000.
- Employees of tax-exempt entities.--The proposal would direct the Treasury Department to revise its regulations under section 410(b) to provide that, if certain requirements are satisfied, employees of a tax-exempt charitable organization who are eligible to make salary reduction contributions under a section 403(b) annuity may be treated as excludable employees for purposes of testing a section 401(k) plan.
- Treatment of employer-provided retirement advice.--Under the proposal, qualified retirement planning services provided to an employee and his or her spouse by an employer maintaining a qualified plan would generally be excludable from income and wages. The proposal would be effective with respect to taxable years beginning after December 31, 2000.

- Reporting simplification.--The proposal would direct the Secretary of the Treasury to provide for an exemption from the annual return requirement for a plan that covers only the sole owner of a business that maintains the plan (and such owner's spouse), or partners in a partnership that maintains the plan (and such partners' spouses), if the total value of the plan assets as of the end of the plan year and all prior plan years does not exceed \$250,000 and the plan meets certain other requirements. In addition, the Secretary of the Treasury would be directed to provide for the filing of a simplified annual return substantially similar to the Form 5500-EZ by a plan that meets certain requirements. The proposal would be effective on the date of enactment.
- Improvement to employer plans compliance resolution system.--The proposal would direct the Secretary of the Treasury to continue to update and improve EPCRS, giving special attention to (1) increasing the awareness and knowledge of small employers concerning the availability and use of EPCRS, (2) taking into account special concerns and circumstances that small employers face with respect to compliance and correction of compliance failures, (3) extending the duration of the self-correction period under APRSC for significant compliance failures, (4) expanding the availability to correct insignificant compliance failures under APRSC during audit, and (5) assuring that any tax, penalty, or sanction that is imposed by reason of a compliance failure is not excessive and bears a reasonable relationship to the nature, extent, and severity of the failure. The proposal would be effective on the date of enactment.
- Repeal of the multiple use test.--The proposal would repeal the multiple use test, effective for years beginning after December 31, 2000.
- Flexibility in nondiscrimination, coverage, and line of business rules.--The proposal would direct the Secretary of the Treasury to provide by regulation circumstances under which plans can use the prior-law facts and circumstances test to satisfy the nondiscrimination, coverage, and line of business rules.
- Extension to all governmental plans of moratorium on application of certain nondiscrimination rules applicable to State and local government plans.--Under the proposal, a plan maintained by any governmental entity would be exempt from the nondiscrimination and minimum participation rules. The proposal would be effective for plan years beginning after December 31, 2000.

G. Provisions Relating to Plan Amendments

- Under the proposal, any amendments to a plan or annuity contract required to be made by the proposal would not be required to be made before the last day of the first plan year beginning on or after January 1, 2003. In the case of a governmental plan, the date for amendments would be extended to the first plan year beginning on or after January 1, 2005. The proposal would be effective on the date of enactment.