

AALU's Washington Report

Premier analysis of federal legislative and regulatory developments for the nation's 2,000 most advanced life insurance planners, focusing on business, estate, qualified and nonqualified retirement planning.

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Subject: “Next Generation” Pension Reform Bills Introduced

Major References: [*Individual and Workplace Retirement Savings Promotion Act of 2005 \(H.R. 1960\)*](#); [*Pension Preservation and Savings Expansion Act of 2005 \(H.R. 1961\)*](#)

MDRT Information Retrieval Index Nos.: 2400.00

Rep. Rob Portman (R-OH) has introduced H.R. 1960 and Rep. Benjamin Cardin (D-MD) has introduced H.R. 1961, both of which are designed to bring further tax reforms to the existing pension rules. For many years Reps. Portman and Cardin worked together to craft sweeping bi-partisan pension reform legislation. It is likely that these largely parallel bills are the last of this type that we will see from these gentlemen. Rep. Portman has accepted an appointment as the new U.S. Trade Representative and Rep. Cardin has announced his intention to run for the Senate seat being vacated in 2006 by Senator Paul Sarbanes (D-MD).

Both bills have been referred to the House Ways and Means Committee and to the House Education and Workforce Committees. Although the bills are similar, there are some notable differences. For example, the Cardin bill would repeal Roth 401(k) accounts (which were enacted by EGTRRA in 2001 and are scheduled to take effect in 2006). The Portman bill would, in general consistency with the President's budget proposal, create “Retirement Savings Accounts” (RSAs) that would replace Roth IRAs. Portman's after-tax contribution limit for RSAs would be \$5,000 and RSAs would be available to everyone regardless of income level.

Although the bills contain many reform proposals, below are some of their more significant ones:

Helping Families Build Retirement Savings

- Makes permanent the EGTRRA changes in pension laws which are generally scheduled to sunset after 12/31/10 – including catch up contributions for individuals age 50 and older, small business pension incentives, expanded contribution limits, etc.

- Expands the current “Saver’s Credit” for low and moderate income individuals who contribute to a workplace retirement plan or IRA and makes the credit refundable and permanent (the credit is currently scheduled to sunset on 12/31/06).
- Makes the tax rules more uniform for defined contribution type plans (i.e., streamlines the rules for 401(k), 403(b) and 457(b) plans).
- Allows individuals to save for retirement planning services on a pre-tax basis through workplace payroll deduction.
- Requires faster vesting for profit sharing and other employer contributions (to match the faster vesting rules enacted in 2001 for matching contributions).
- Allows non-spouse beneficiaries to make tax-free rollovers to IRAs.
- Allows direct rollovers of after tax contributions between tax-exempt and for-profit employers’ retirement plans and Roth IRAs.
- Allows federal income tax refunds to be electronically deposited into IRAs.

Expanding Workplace Plans and Participation

- Creates safe harbors for automatic enrollment in pre-tax salary deferral plans and pre-empts state wage withholding laws that otherwise would require individuals to authorize withholding from their wages.
- Allows small employers to make more contributions to SIMPLE and SEP plans.
- Clarifies that National Guard and military reservists called to active duty may continue contributing to their employers’ retirement plans if the employer pays them a salary differential during their active military duty.
- Strengthens state and local government employee pension plans and improves the current service credit purchasing rules.

Preserving and Protecting Retirement Income

- Allows \$2,000 to be distributed tax free from lifetime annuities.
- Exempts individuals (those with combined accounts of under \$100,000) from the minimum required distribution (MRD) rules (which require payments to begin after age 70 ½) and reduces, from 50% to 25%, excise taxes on those who fail to take minimum required distributions (MRDs) after age 70 ½.

- Revises the MRD rules to allow “longevity insurance” – a form of annuity that begins payment once the individual reaches his or her life expectancy. The new law would also index the age 70 ½ rule to future increases in life expectancy.
- Permits greater diversification of savings that otherwise would be invested in employer stock.
- Imposes excise taxes on significant payments to corporate executives of financially troubled companies (i.e., further post-Enron reforms).

Any AALU member who wishes to obtain a copy of the Portman or Cardin pension reform bills may do so through the following means: (1) use hyperlink above next to “Major References,” (2) log onto the AALU website at www.aalu.org and enter the *Member Portal* with your social security number and select *Current Washington Report* for linkage to source material or (3) email Jeff Lavine at lavine@aalu.org and include a reference to this *Washington Report*.



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