
Focus on 457



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Pension Preservation and Savings Expansion Act Introduced April 11, 2002

Representatives Rob Portman (R-OH) and Ben Cardin (D-MD) introduced their next generation of pension reform on Friday, April 11. This bipartisan legislation called The Pension Preservation and Savings Expansion Act (H.R. 1776) contains many important provisions designed to enhance and strengthen employer sponsored retirement plans. "Americans are having trouble saving enough for retirement, and we've got to do something to help these workers and their families," said Congressman Portman. "This bipartisan approach will give people more options and more tools, not only so they can save more, but also so that their savings can be better protected." Rep. Cardin said, "I am extremely encouraged by the progress we've made since the 2001 pension reform bill in helping Americans take more control of their retirement planning and increasing the number of people who have retirement savings. This bill is the next step in giving Americans the tools they need so they can plan for their future.

The Portman-Cardin legislation is being co-sponsored by Rep. Nancy Johnson (R-CT), Rep. Earl Pomeroy (D-ND), Rep. Roy Blunt (R-MO), Rep. Ellen Tauscher (D-CA), Rep. Elton Gallegly (R-CA), Rep. Albert Wynn (D-MD), Rep. Fred Upton (R-MI), and Rep. Dennis Moore (D-KS).

The Portman-Cardin Pension Preservation and Savings Expansion Act, HR 1776, would:

- **Make EGTRRA Permanent.** All retirement savings and pension reforms in EGTRRA currently scheduled to sunset at the end of 2010 would be made permanent.
- **Accelerate Contribution and Catch-up Limits.** The maximum annual contribution limits for elective deferrals and age 50 catch-up amounts contained in EGTRRA would become effective in 2004 rather than 2006.. Participants could contribute the

full \$15,000 into a 401(k), 403(b) or 457(b) and the full \$5,000 age 50 catch-up amount.

- **Enhance Portability.** Provide new retirement planning tools by expanding the availability of rollovers.
 - Allows participants to roll plan assets directly into a spouse's IRA.
 - Allows non-spouse beneficiaries to do rollovers.
 - Allows direct rollovers from retirement plans to Roth IRAs.
 - Allows employees to roll over up to \$500 of unused health care flexible benefit account amounts into retirement plans, subject to certain contribution limits.
 - Improve the purchase of service credit regime and enhance DROP plans for public safety workers.
 - Allows rollovers of after-tax contributions to 403(b) plans.
 - Permits rollovers to and from SIMPLE and SEP IRAs.
 - Eases transfers or mergers between 401(k)s and 403(b)s.

- **Finance Retiree Health Expenses.**
 - Allows retirees to cover medical premiums with pre-tax pension money, thus putting retirees on the same tax footing as active workers with respect to the tax treatment of their health plan premiums.
 - Provides sponsors of defined contribution plans, such as 401(k)s, with a new mechanism to fund a modest portion of retiree medical expenses on a pre-tax basis.

- **Preserve Retirement Assets.**
 - Raises the beginning date for required minimum distributions from age 70 ½ to age 75.
 - Reduces the excise tax on amounts not timely distributed from 50% to 20%.
 - Provides incentives for individuals to take their retirement benefits in the form of a life annuity by allowing individuals with income of up to \$90,000 to exclude up to \$2,000 or annuity income from taxation each year.

- Amends ERISA section 404(c) to provide protection to plan fiduciaries in connection with default rollover options to an IRA.
 - Expands existing PBGC program to find missing participants and get them their lost retirement plan benefits.
 - Permits definition of qualified domestic relations orders to include orders issued after a divorce.
 - The \$5,000 cash-out limitation would become subject to cost of living adjustments.
 - Guidance on electronic plan administration would be provided.
 - The “substantially equal periodic payment” exception to the 10% premature distribution penalty tax would be clarified.
- **Expand the Saver’s Credit and Making it Permanent.** The low and moderate income saver’s credit limits would be increased. Eligibility for single filers would increase to \$30,000 and for joint filers to \$60,000. The maximum credit would increase to 60% of first \$2,000.
- **Enhance IRAs**
 - Accelerate IRA contribution and catch-up limits by allowing owners to contribute the full \$5,000 beginning in 2004 rather than in 2008. The age 50 catch-up amount would increase to the full \$1,000 now rather than 2006.
 - Eliminate IRA Marriage Penalty. The income eligibility levels for joint filers will be increased to twice the levels for single filers. The rule that one spouse cannot make own deductible IRA contributions if other spouse in a retirement plan would be eliminated.
 - Accelerate Income Eligibility - Deductible IRAs. Individuals earning below \$50,000 and couples earning below \$100,000 would be fully eligible in 2004, rather than 2006.
 - Allowing IRAs for Disabled Americans. Disabled Americans with no wage income cannot currently contribute to IRAs. Those meeting a standard of disability could contribute to an IRA using non-wage sources.
 - Correcting IRA Distribution Mistakes. Initiate a correction mechanism to allow IRA investors to return funds to their accounts when distributions have been made in error.

- **Reduce Vesting Schedules.** The vesting schedule on all employer contributions to 401(a) and 401(k) plans must be reduced to 3 year cliff or must vest gradually over six years of service. This provision is identical to the faster vesting requirement for employer matching contributions contained in EGTRRA.
- **Reform Company Stock and Executive Compensation Practices.**
 - Provide employees with new rights to diversify company stock, require new investment education notices and allow employees to save for retirement planning expenses on a pre-tax basis.
 - Require employers to provide new investment education notices to employees and allow employees to save for retirement planning expenses on a pre-tax basis.
 - Impose excise tax on excessive corporate payments to senior executives in the period prior to bankruptcy to prevent insiders from draining assets.
- **Expand Small Business Pension Coverage.**
 - Improvements to SIMPLE And SEP plans.
 - Remove payroll tax penalty for self-employed.
- **Revitalize Defined Benefit Plans.**
 - New interest rate benchmark for pension calculations based on long-term conservative corporate bond rates, replacing current 30 –year Treasury bond rate.
 - Substantial transition assistance to older workers so that lump sum amounts are not undercut.
 - Targeted funding relief for multi-employer pension plans managed jointly by union and employer trustees.
 - Simplify the defined benefit rules.
- **Simplify Regulation.** Reforming a variety of administrative rules that have unnecessarily increased the cost and complexity of retirement plan sponsorship and administration.

If you have questions or comments regarding the proposed legislation, please contact your relationship manager. We will also keep you advised of the progress of this legislation over the coming months.

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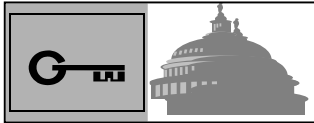
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