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I. SUMMARY AND BACKGROUND

A. Purpose and Summary

The bill, H.R. 5558, as amended (the "Retirement Savings and Security Act of 2002") modifies the tax laws to provide increased opportunity for saving for retirement.

The bill accelerates the increases in the regular and catch-up contribution limits to individual retirement arrangements ("IRAs"), qualified cash or deferred arrangements and similar plans. This will allow individuals greater opportunity for tax-favored retirement saving.

The bill also increases incrementally the age at which distributions from tax-favored retirement plans generally must begin from 70-1/2 to 75. This will provide individuals with more flexibility and control over their retirement savings.

B. Background and Need for Legislation

The provisions approved by the Committee reflect the need to provide Americans with opportunities to increase retirement saving and improve retirement income security.

C. Legislative History

Committee Action

The Committee on Ways and Means marked up the provisions of the bill on October 7 and 8, 2002, and approved the provisions, as amended, on October 8, 2002, by a roll call vote of 24 yeas to 10 nays (with a quorum being present).

Committee Hearings

The Committee has held a number of hearings relating to retirement income security.

The full Committee held a hearing on Retirement Security and Defined Contribution plans on February 19, 2002. The Oversight Subcommittee held a hearing on Retirement Security and Defined Benefit Plans on June 20, 2002, and a hearing on Employer and Employee Views on Retirement Security on March 5, 2002.

II. EXPLANATION OF THE BILL

A. Acceleration of Increases in IRA Contribution Limit

Present Law

Under present law, the maximum annual limit on contributions to individual retirement arrangements ("IRAs") is $3,000 for 2002-2004, $4,000 for 2005-2007, and $5,000 for 2008[1] and thereafter. The $5,000 limit is indexed for inflation after 2008.

For individuals who have attained age 50, the maximum annual limit on IRA contributions is increased by $500 in 2002-2005 and $1,000 in 2006 and thereafter.[2]

Reasons for Change

The Economic Growth and Tax Relief Reconciliation Act of 2001 increased the contribution limits for IRAs and added the special catch-up contributions for individuals age 50 and older. These limits were increased in order to allow workers to accumulate greater retirement savings and, in the case of catch-up contributions, to allow individuals who may have missed retirement savings opportunities earlier in their careers to be able to accumulate sufficient retirement savings. These provisions were enacted on a phased-in basis due to budgetary constraints. The Committee remains concerned about the adequacy of retirement savings, and believes that accelerating the previously enacted limits will increase retirement security.

Explanation of Provision

The bill accelerates the increase in the maximum annual limit on contributions so that the limit is $5,000 for 2003 and thereafter. The bill also accelerates the increase in the catch-up contribution limit so that it is $1,000 in 2003 and thereafter. The $5,000 limit is indexed for inflation after 2008, as under present law.[3]

Effective Date

The provision is effective for taxable years beginning after December 31, 2002.

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[1] For years after 2010, the limit is $2,000, pursuant to the general sunset provision of the Economic Growth and Tax Relief Reconciliation Act of 2001.

[2] For years after 2010, the catch-up provision expires, pursuant to the general sunset provision of the Economic Growth and Tax Relief Reconciliation Act of 2001.

[3] These provisions are permanent.

B. Acceleration of Scheduled Increases in Pension Plan Contribution Limits

Present Law

The annual dollar limit on elective deferrals under qualified cash or deferred arrangements (sec. 401(k)), tax-sheltered annuities (sec. 403(b)), and salary reduction simplified employee pensions ("SEPs") is $11,000 in 2002. This limit is scheduled to increase so that it is $15,000 in 2006, with indexing thereafter.

The maximum annual elective deferrals that may be made to a SIMPLE plan is $7,000 in 2002. This limit is scheduled to increase so that it is $10,000 in 2005, with indexing thereafter.

The dollar limit on deferrals under an eligible deferred compensation plan of a tax-exempt or State or local government employer (sec. 457) is $11,000 in 2002. This limit is scheduled to increase until it is $15,000 in 2006, with indexing thereafter.

Present law provides that individuals who have attained age 50 may make additional catch-up contributions to qualified cash or deferred arrangements, tax-sheltered annuities, salary reduction SEPs, and section 457 plans of up to $1,000 in 2002. This amount is scheduled to increase to $5,000 in 2006, with indexing thereafter. Individuals who have attained age 50 may make additional catch-up contributions to a SIMPLE plan of up to $500 in 2002. This amount is scheduled to increase to $2,500 in 2006, with indexing thereafter.[4]

Reasons for Change

The Economic Growth and Tax Relief Reconciliation Act of 2001 increased the contribution limits for cash or deferred arrangements and similar plans and added the special catch-up contributions for individuals age 50 and over. These limits were increased in order to provide greater savings alternatives and, in the case of catch-up contributions, to allow individuals who may have missed retirement savings opportunities earlier in their careers to be able to accumulate sufficient retirement savings. These provisions were enacted on a phased-in basis due to budgetary constraints. The Committee remains concerned about the adequacy of retirement savings, and believes that accelerating the previously enacted limits will increase retirement security.

Explanation of Provision

The bill accelerates the increase in the limit on elective deferrals generally to $15,000, increases the limit on elective deferrals under SIMPLE plans to $10,000, and increases the dollar limit on deferrals under a section 457 plan to $15,000 for 2003 and thereafter. These dollar amounts are indexed for inflation after 2006, as under present law.

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[4] For years after 2010, the catch-up contribution provision expires and the elective deferral limits revert to the limits in effect prior to the Economic Growth and Tax Relief Reconciliation Act of 2001 pursuant to the general sunset provision of that Act.

For 2003 and thereafter, the bill accelerates the increase in the maximum catch-up contribution for qualified cash or deferred arrangements, tax-sheltered annuities, salary reduction SEPs, and section 457 plans to $5,000 and increases the maximum catch-up contribution for SIMPLE plans to $2,500.[5] These dollar amounts are indexed for inflation after 2006, as under present law.

Effective Date

The provision is effective for years beginning after December 31, 2002.

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[5] The changes made by the provision are permanent.

C. Updating of the Minimum Distribution Rules

Present Law

In general

Minimum distribution rules apply to all types of tax-favored retirement arrangements, including qualified retirement plans and annuities, individual retirement arrangements ("IRAs"), tax-sheltered annuity plans ("section 403(b) plans"), and eligible deferred compensation plans of tax-exempt and State and local government employers ("section 457 plans"). In general, under these rules, distribution of minimum benefits must begin no later than the required beginning date. Minimum distribution rules also apply to benefits payable with respect to a plan participant who has died. Failure to comply with the minimum distribution rules results in an excise tax imposed on the individual plan participant equal to 50 percent of the required minimum distribution not distributed for the year. The excise tax may be waived if the individual establishes to the satisfaction of the Secretary of the Treasury that the shortfall in the amount distributed was due to reasonable error and reasonable steps are being taken to remedy the shortfall. Under certain circumstances following the death of a participant, the excise tax is automatically waived under Treasury regulations.

Distributions prior to the death of the individual

In the case of distributions prior to the death of the plan participant, the minimum distribution rules are satisfied if either (1) the participant's entire interest in the plan is distributed by the required beginning date, or (2) the participant's interest in the plan is to be distributed (in accordance with regulations), beginning not later than the required beginning date, over a permissible period. The permissible periods are (1) the life of the participant, (2) the lives of the participant and a designated beneficiary, (3) the life expectancy of the participant, or (4) the joint life and last survivor expectancy of the participant and a designated beneficiary. In calculating minimum required distributions from account-type arrangements (e.g., a defined contribution plan or an individual retirement account), life expectancies of the participant and the participant's spouse generally may be recomputed annually.

In the case of qualified retirement plans and annuities, section 403(b) plans, and section 457 plans, the required beginning date generally is April 1 of the calendar year following the later of (1) the calendar year in which the participant attains age 70-1/2 or (2) the calendar year in which the participant retires. However, in the case of a five-percent owner of the employer, distributions generally are required to begin no later than April 1 of the calendar year following the year in which the five-percent owner attains age 70-1/2. If commencement of distributions from a defined benefit plan is delayed beyond age 70-1/2 (i.e., in the case of a participant who has not retired), then the accrued benefit of the participant must be actuarially increased to take into account the period after age 70-1/2 in which the participant was not receiving benefits under the plan.[6] In the case of distributions from an IRA other than a Roth

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[6] State and local government plans and church plans are not required to actuarially increase benefits that begin after age 70-1/2.

IRA, the required beginning date is the April 1 of the calendar year following the calendar year in which the IRA owner attains age 70-1/2. The pre-death minimum distribution rules do not apply to Roth IRAs.

In general, under Treasury regulations, in order to satisfy the minimum distribution rules, annuity payments under a defined benefit plan must be paid in periodic payments made at intervals not longer than one year over a permissible period, and must be nonincreasing, or increase only as a result of the following: (1) cost-of-living adjustments; (2) cash refunds of employee contributions; (3) benefit increases under the plan; or (4) an adjustment due to death of the employee's beneficiary. In the case of a defined contribution plan, the minimum required distribution is determined by dividing the employee's benefit by an amount from the uniform table provided in the regulations.

Distributions after the death of the plan participant

The minimum distribution rules also apply to distributions to beneficiaries of deceased participants. In general, if a participant dies after minimum distributions have begun, the remaining interest must be distributed at least as rapidly as under the minimum distribution method being used as of the date of death. If the participant dies before minimum distributions have begun, then the entire remaining interest must generally be distributed within five years of the participant's death. The five-year rule does not apply if distributions begin within one year of the participant's death and are payable over the life of a designated beneficiary or over the life expectancy of a designated beneficiary.

A surviving spouse beneficiary is not required to begin distributions until the date the deceased participant would have attained age 70-1/2. In addition, a surviving spouse generally has the option of rolling over his or her interest in the plan or IRA to a plan in which the spouse is a participant or to an IRA established for his or her benefit. In that case, the minimum distribution rules are applied to the plan or IRA on the basis of the surviving spouse's age.

Reasons for Change

The minimum distribution rules reflect the view that tax-favored savings should be used primarily for retirement income. However, the minimum distribution rules impose considerable complexity on pension plan participants and IRA owners. In addition, the present-law required beginning date may cause some individuals to take distributions that they do not currently need for retirement income, thereby possibly depleting funds that may be needed in the future.

Explanation of Provision

The bill increases the age at which distributions to a participant must begin to 73 in 2003 and 2004, 74 in 2005 and 2006, and 75 in 2007 and thereafter. Thus, a participant generally is not required to begin receiving distributions until April 1 of the calendar year following the later of (1) the calendar year in which the participant attains the applicable age or (2) the calendar year in which the participant retires. In the case of a five-percent owner of the employer, distributions are required to begin no later than April 1 of the calendar year following the year in which the five-percent owner attains the applicable age. The change in age also applies for purposes of distributions to surviving spouses.

The bill revises the rule relating to actuarial adjustments to the accrued benefit under a defined benefit plan when commencement of benefits is delayed beyond age 70-1/2. Under the provision, a participant's accrued benefit under a defined benefit plan must be actuarially increased to take into account the period during which the participant is not eligible to receive benefits under the plan. For this purpose, the relevant period begins April 1 following the calendar year in which the participant attains age 70-1/2.

Effective Date

The provision is effective for years beginning after December 31, 2002. Under a transition rule, a plan or IRA is not treated as failing to meet the minimum distribution requirements merely because, in years after 2002, it does not make a distribution before a participant's required beginning date as determined under the proposal. As a result, a participant who attains age 70-1/2 before 2003 need not receive distributions in years after 2002 until his or her required beginning date under the provision. For example, a participant who attains age 70-1/2 in 2002 and who is required under present law to receive a distribution by April 1, 2003, may delay the distribution until his or her required beginning date as determined under the provision. In addition, a participant who began receiving required distributions before 2003 and whose required beginning date under the provision is after 2004, is not required to receive additional distributions until that required beginning date.

III. VOTES OF THE COMMITTEE

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the following statements are made concerning the votes of the Committee on Ways and Means in its consideration of the bill, H.R. 5558.

MOTION TO REPORT THE BILL

The bill, H.R. 5558, as amended, was ordered favorably reported by a roll call vote of 24 yeas to 10 nays (with a quorum being present). The vote was as follows:

Representatives	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Thomas...............	X			Mr. Rangel..............		X	
Mr. Crane....................	X			Mr. Stark.................		X	
Mr. Shaw....................	X			Mr. Matsui..............		X	
Mrs. Johnson.............	X			Mr. Coyne...............			
Mr. Houghton............	X			Mr. Levin................		X	
Mr. Herger.................	X			Mr. Cardin..............		X	
Mr. McCrery..............	X			Mr. McDermott.......			
Mr. Camp....................	X			Mr. Kleczka............		X	
Mr. Ramstad..............	X			Mr. Lewis (GA).......			
Mr. Nussle.................	X			Mr. Neal..................			
Mr. Johnson...............	X			Mr. McNulty...........			
Ms. Dunn....................	X			Mr. Jefferson..........			
Mr. Collins.................	X			Mr. Tanner..............		X	
Mr. Portman...............	X			Mr. Becerra.............		X	
Mr. English................	X			Mrs. Thurman..........		X	
Mr. Watkins...............	X			Mr. Doggett............			
Mr. Hayworth............	X			Mr. Pomeroy...........		X	
Mr. Weller.................	X						
Mr. Hulshof...............	X						
Mr. McInnis...............	X						
Mr. Lewis (KY)..........	X						
Mr. Foley...................	X						
Mr. Brady..................	X						
Mr. Ryan...................	X						

IV. BUDGET EFFECTS OF THE BILL

A. Committee Estimate of Budgetary Effects

In compliance with clause 3(d)(2) of the rule XIII of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of the revenue provisions of the bill, H.R. 5558 as reported.

The bill is estimated to have the following effects on budget receipts for fiscal years 2003-2007:

[Insert Joint Committee table]

B. Statement Regarding New Budget Authority and Tax Expenditures Budget Authority

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee states that the bill involves no new or increased budget authority (as detailed in the statement by the Congressional Budget Office ("CBO"); see Part IV.C., below). The Committee further states that the revenue reducing income tax provisions involve increased tax expenditures. (See amounts in table in Part IV.A., above.)

C. Cost Estimate Prepared by the Congressional Budget Office

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, requiring a cost estimate prepared by the CBO, the following statement by CBO is provided.

[Insert CBO letter (to be supplied)]

V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

A. Committee Oversight Findings and Recommendations

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that it was a result of the Committee's oversight review concerning the need for retirement security and the effect of tax-favored savings on attaining such security that the Committee concluded that it is appropriate and timely to enact the revenue provisions included in the bill as reported.

B. Statement of General Performance Goals and Objectives

With respect to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee advises that the bill contains no measure that authorizes funding, so no statement of general performance goals and objectives for which any measure authorizes funding is required.

C. Constitutional Authority Statement

With respect to clause 3(d)(1) of the rule XIII of the Rules of the House of Representatives (relating to Constitutional Authority), the Committee states that the Committee's action in reporting this bill is derived from Article I of the Constitution, Section 8 ("The Congress shall have Power to lay and collect Taxes, Duties, Imposts and Excises. . . "), and from the 16th Amendment to the Constitution.

D. Information Relating to Unfunded Mandates

This information is provided in accordance with section 423 of the Unfunded Mandates Act of 1995 (P.L. 104-4).

The Committee has determined that the bill does not contain Federal mandates on the private sector. The Committee has determined that the bill does not impose a Federal intergovernmental mandate on State, local, and tribal governments.

E. Applicability of House Rule XXI 5(b)

Rule XXI 5(b) of the Rules of the House of Representatives provides, in part, that "A bill or joint resolution, amendment, or conference report carrying a Federal income tax rate increase may not be considered as passed or agreed to unless so determined by a vote of not less than three-fifths of the Members voting, a quorum being present." The Committee has carefully reviewed the provisions of the bill, and states that the provisions of the bill do not involve any Federal income tax rate increases within the meaning of the rule.

F. Tax Complexity Analysis

Section 4022(b) of the Internal Revenue Service Reform and Restructuring Act of 1998 (the "IRS Reform Act") requires the Joint Committee on Taxation (in consultation with the

Internal Revenue Service and the Department of Treasury) to provide a tax complexity analysis. The complexity analysis is required for all legislation reported by the House Committee on Ways and Means, the Senate Committee on Finance, or any committee of conference if the legislation includes a provision that directly or indirectly amends the Internal Revenue Code and has widespread applicability to individuals or small businesses.

The staff of the Joint Committee on Taxation has determined that a complexity analysis is not required under section 4022(b) of the IRS Reform Act because the bill contains no provisions that amend the Internal Revenue Code and that have "widespread applicability" to individuals or small businesses.

VI. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rule of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

[TO BE SUPPLIED BY LEGISLATIVE COUNSEL'S OFFICE]

VII. DISSENTING VIEWS