

RETIREMENT SAVINGS AND SECURITY ACT OF 2002

OCTOBER 10 (legislative day, OCTOBER 9), 2002.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. THOMAS, from the Committee on Ways and Means,
submitted the following

R E P O R T

together with

DISSENTING VIEWS

[To accompany H.R. 5558]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 5558) to amend the Internal Revenue Code of 1986 to accelerate the increases in contribution limits to retirement plans and to increase the required beginning date for distributions from qualified plans, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the “Retirement Savings and Security Act of 2002”.

SEC. 2. ACCELERATION OF INCREASES IN IRA CONTRIBUTION LIMIT.

(a) DEDUCTIBLE AMOUNT.—Subparagraph (A) of section 219(b)(5) of the Internal Revenue Code of 1986 is amended to read as follows:

“(A) IN GENERAL.—The deductible amount shall be \$5,000.”.

(b) CATCH-UP AMOUNT.—Subparagraph (B) of section 219(b)(5) of such Code is amended to read as follows:

“(B) CATCH-UP CONTRIBUTIONS FOR INDIVIDUALS 50 OR OLDER.—In the case of an individual who has attained the age of 50 before the close of the taxable year, the dollar amount in effect under paragraph (1)(A) for such taxable year (determined without regard to this paragraph) shall be increased by \$1,000.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2002.

SEC. 3. ACCELERATION OF SCHEDULED INCREASES IN PENSION PLAN CONTRIBUTION LIMITS.

(a) ELECTIVE DEFERRALS.—Subparagraph (B) of section 402(g)(1) of the Internal Revenue Code of 1986 is amended by striking “the amount determined” and all that follows and inserting “\$15,000.”.

(b) DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.—Subparagraph (A) of section 457(e)(15) of such Code is amended by striking “the amount determined” and all that follows and inserting “\$15,000.”.

(c) SIMPLE RETIREMENT ACCOUNTS.—Clause (i) of section 408(p)(2)(E) of such Code is amended by striking “the amount determined” and all that follows and inserting “\$10,000.”.

(d) CATCH-UP CONTRIBUTIONS.—Subparagraph (B) of section 414(v)(2) of such Code is amended—

(1) in clause (i) by striking “determined” and all that follows and inserting “\$5,000.”, and

(2) in clause (ii) by striking “determined” and all that follows and inserting “\$2,500.”.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 2002.

SEC. 4. SIMPLIFICATION AND UPDATING OF THE MINIMUM DISTRIBUTION RULES.

(a) REQUIRED DISTRIBUTIONS.—

(1) INCREASE IN AGE FOR REQUIRED BEGINNING DATE.—Subparagraphs (C)(i)(I) and (C)(ii)(I) of section 401(a)(9) of the Internal Revenue Code of 1986 are each amended by striking “age 70½” and inserting “the applicable age”.

(2) APPLICABLE AGE.—Subparagraph (C) of section 401(a)(9) of such Code is amended by inserting at the end the following new clause:

“(v) APPLICABLE AGE.—The applicable age shall be determined in accordance with the following table:

| “Calendar year: | Applicable age is: |
|---------------------------|--------------------|
| 2003 and 2004 | 73 |
| 2005 and 2006 | 74 |
| 2007 and thereafter | 75.” |

(3) SPOUSE BENEFICIARIES.—Subclause (I) of section 401(a)(9)(B)(iv) is amended by striking “age 70½” and inserting “the applicable age”.

(4) ACTUARIAL ADJUSTMENT OF BENEFIT UNDER DEFINED BENEFIT PLAN.—Clause (iii) of section 401(a)(9)(C) of such Code is amended to read as follows:

“(iii) ACTUARIAL ADJUSTMENT.—

“(I) IN GENERAL.—In the case of a defined benefit plan, an employee’s accrued benefit shall be actuarially increased to take into account the period after the applicable date during which the employee was not eligible to receive any benefits under the plan.

“(II) APPLICABLE DATE.—For purposes of clause (I), the term ‘applicable date’ means the April 1st following the calendar year in which the employee attains age 70½.”.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to years beginning after December 31, 2002.

(2) TRANSITION.—A plan shall not be treated as failing to meet the requirements of section 401(a)(9) of the Internal Revenue Code of 1986 merely because, in years beginning after December 31, 2002, no distribution is made to an employee before the employee’s required beginning date, as determined in accordance with the amendments made by this section.

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 70½ 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 2008¹ 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.

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.

¹For 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.

²For 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.

³These provisions are permanent.

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.

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.

⁴For 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.

⁵The 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 70½ 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 70½. If commencement of distributions from a defined benefit plan is delayed beyond age 70½ (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 70½ in which the participant was not receiving benefits under the plan.⁶ In the case of distributions from an IRA other than a Roth

⁶State and local government plans and church plans are not required to actuarially increase benefits that begin after age 70½.

IRA, the required beginning date is the April 1 of the calendar year following the calendar year in which the IRA owner attains age 70½. 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 70½. 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 70½. 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 70½.

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 70½ 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 70½ 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 ..... | ..... | X | ..... |
| Mr. Houghton | X | ..... | ..... | Mr. Levin | X | ..... | ..... |
| Mr. Herger | X | ..... | ..... | Mr. Cardin ..... | ..... | X | ..... |
| Mr. McCrery | X | ..... | ..... | Mr. McDermott | X | ..... | ..... |
| 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 | ..... |

| Representatives | Yea | Nay | Present | Representative | Yea | Nay | Present |
|----------------------|-----|-------|---------|-------------------|-------|-------|---------|
| 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:

ESTIMATED REVENUE EFFECTS OF A CHAIRMAN'S AMENDMENT IN THE NATURE OF A SUBSTITUTE TO H.R. 5558, THE "RETIREMENT SAVINGS AND SECURITY ACT OF 2002," SCHEDULED FOR MARKUP BY THE COMMITTEE ON WAYS AND MEANS ON OCTOBER 7, 2002

[Fiscal years 2003–2012, in millions of dollars]

| Provision | Effective | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2003–07 | 2003–12 |
|--|---------------|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|
| 1. Accelerate scheduled increase in IRA contribution limit to \$5,000 and IRA catch-up contribution limit of \$1,000 | tyba 12/31/02 | -389 | -893 | -877 | -764 | -838 | -825 | -779 | -833 | -1,760 | -2,989 | -3,760 | -10,946 |
| 2. Accelerate scheduled increase in limit on elective deferrals (and deferrals under section 457 plan) to \$15,000 and increase in limit on elective deferrals under SIMPLE plans to \$10,000; accelerate scheduled increase in maximum catch-up contributions to \$5,000 and increase in maximum catch-up for SIMPLE plans to \$2,500 | yba 12/31/02 | -322 | -417 | -257 | -127 | -110 | -115 | -116 | -123 | -982 | -1,415 | -1,234 | -3,985 |
| 3. Increase required beginning date for mandatory distributions from an IRA or pension plan from age 70½ to: 73 in 2003 and 2004, 74 in 2005 and 2006, and 75 in 2007 and thereafter | yba 12/31/02 | -894 | -1,702 | -1,561 | -2,250 | -2,760 | -3,114 | -3,462 | -3,368 | -3,592 | -3,843 | -9,167 | -26,547 |
| 4. Technical change to conform the age at which required distributions must begin to a surviving spouse to the age at which required distributions must begin to the employee | yba 12/31/02 | No revenue effect | | | | | | | | | | | |
| Net total | | -1,605 | -3,012 | -2,695 | -3,141 | -3,708 | -4,054 | -4,357 | -4,324 | -6,334 | -8,247 | -14,161 | -41,478 |

Legend for "Effective" column: tyba=taxable years beginning after; yba=years beginning after.

Note.—Details may not add to totals due to rounding.

Source: Joint Committee on Taxation.

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.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, October 9, 2002.

Hon. WILLIAM “BILL” M. THOMAS,
*Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 5558, the Retirement Savings and Security Act of 2002.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Annie Bartsch.

Sincerely,

BARRY B. ANDERSON
(For Dan L. Crippen, Director).

Enclosure.

H.R. 5558—Retirement Savings and Security Act 2002

Summary: H.R. 5558 would make several changes to retirement plan provisions of the Internal Revenue Code of 1986. First, H.R. 5558 would accelerate the increase in the maximum annual limit on contributions to individual retirement arrangements (IRAs) so that it is \$5,000 starting in 2003, indexed for inflation after 2008. Under current law, the maximum limit is not scheduled to reach \$5,000 until 2008. H.R. 5558 would also accelerate the increases in the maximum annual dollar limit on elective deferrals generally (including those under sections 401(k) and 403(b), and salary reduction simplified employee pensions (SEPs)) to \$15,000 in 2003, on elective deferrals under SIMPLE plans to \$10,000 in 2003, and on deferrals under section 457 to \$15,000 in 2003. These dollar amounts would be indexed for inflation after 2006.

The bill also would increase 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 increase the maximum catch-up contribution for SIMPLE plans to \$2,500. These dollar amounts would also be indexed for inflation after 2006.

Finally, for all types of tax-favored retirement arrangements, H.R. 5558 would increase the age of the participant at which dis-

tributions must begin to 73 in 2003 and 2004, 74 in 2005 and 2006, and 75 in 2007 and thereafter. Under current law, distributions must begin generally no later than when the participant turns 70-1/2

The Joint Committee on Taxation (JCT) estimates that enacting H.R. 5558 would reduce revenues by \$1.6 billion in 2003, by \$14.2 billion over the 2003–2007 period, and by \$41.5 billion over the 2003–2012 period. JCT had determined that the bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

Estimated Cost to the Federal Government: The estimated budgetary impact of H.R. 5558 is shown in the following table. All revenue estimates of H.R. 5558 were provided by JCT.

| | By fiscal year, in millions of dollars— | | | | | | | | | |
|---|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| CHANGES IN REVENUES | | | | | | | | | | |
| Acceleration of increases in IRA contribution limit | -389 | -893 | -877 | -764 | -838 | -825 | -779 | -833 | -1,760 | -2,989 |
| Acceleration of scheduled increases in pension plan contribution limits | -322 | -417 | -257 | -127 | -110 | -115 | -116 | -123 | -982 | -1,415 |
| Updating of minimum distribution rules | -894 | -1,702 | -1,561 | -2,250 | -2,760 | -3,114 | -3,462 | -3,368 | -3,592 | -3,843 |
| Total estimated changes in revenues | -1,605 | -3,012 | -2,695 | -3,141 | -3,708 | -4,054 | -4,357 | -4,324 | -6,334 | -8,247 |

Source: Joint Committee on Taxation

Intergovernmental and private-sector impact: JCT has determined that the bill contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

Estimate prepared by: Annie Bartsch.

Estimate approved by: Robertson Williams, Deputy Assistant Director for Tax Analysis.

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 Rules 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):

INTERNAL REVENUE CODE OF 1986

* * * * *

Subtitle A—Income Taxes

* * * * *

CHAPTER 1—NORMAL TAXES AND SURTAXES

* * * * *

Subchapter B—Computation of Taxable Income

* * * * *

PART VII—ADDITIONAL ITEMIZED DEDUCTIONS FOR INDIVIDUALS

* * * * *

SEC. 219. RETIREMENT SAVINGS.

(a) * * *

(b) **MAXIMUM AMOUNT OF DEDUCTION.—**

(1) * * *

* * * * *

(5) **DEDUCTION AMOUNT.—**For purposes of paragraph (1)(A)—
[(A) IN GENERAL.—The deductible amount shall be determined in accordance with the following table:

| For taxable years beginning in: | The deductible amount is: |
|--|----------------------------------|
| 2002 through 2004 | \$3,000 |
| 2005 through 2007 | \$4,000 |
| 2008 and thereafter | \$5,000. |

[(B) CATCH-UP CONTRIBUTIONS FOR INDIVIDUALS 50 OR OLDER.—

[(i) IN GENERAL.—In the case of an individual who has attained the age of 50 before the close of the taxable year, the deductible amount for such taxable year shall be increased by the applicable amount.

[(ii) APPLICABLE AMOUNT.—For purposes of clause (i), the applicable amount shall be the amount determined in accordance with the following table:

| For taxable years beginning in: | The applicable amount is: |
|--|----------------------------------|
| 2002 through 2005 | \$500 |
| 2006 and thereafter | \$1,000.] |

(A) IN GENERAL.—The deductible amount shall be \$5,000.

(B) CATCH-UP CONTRIBUTIONS FOR INDIVIDUALS 50 OR OLDER.—In the case of an individual who has attained the age of 50 before the close of the taxable year, the dollar amount in effect under paragraph (1)(A) for such taxable year (determined without regard to this paragraph) shall be increased by \$1,000.

* * * * *

Subchapter D—Deferred Compensation, Etc.

* * * * *

PART I—PENSION, PROFIT-SHARING, STOCK BONUS PLANS, ETC.

* * * * *

Subpart A—General Rule

* * * * *

SEC. 401. QUALIFIED PENSION, PROFIT-SHARING, AND STOCK BONUS PLANS.

(a) REQUIREMENTS FOR QUALIFICATION.—A trust created or organized in the United States and forming part of a stock bonus, pension, or profit-sharing plan of an employer for the exclusive benefit of his employees or their beneficiaries shall constitute a qualified trust under this section—

(1) * * *

* * * * *

(9) REQUIRED DISTRIBUTIONS.—

(A) * * *

(B) REQUIRED DISTRIBUTION WHERE EMPLOYEE DIES BEFORE ENTIRE INTEREST IS DISTRIBUTED.—

(i) * * *

* * * * *

(iv) SPECIAL RULE FOR SURVIVING SPOUSE OF EMPLOYEE.—If the designated beneficiary referred to in clause (iii)(I) is the surviving spouse of the employee—

(I) the date on which the distributions are required to begin under clause (iii)(III) shall not be earlier than the date on which the employee would have attained [age 70½] *the applicable age*, and

* * * * *

(C) REQUIRED BEGINNING DATE.—For purposes of this paragraph—

(i) IN GENERAL.—The term “required beginning date” means April 1 of the calendar year following the later of—

(I) the calendar year in which the employee attains [age 70½] *the applicable age*, or

* * * * *

(ii) EXCEPTION.—Subclause (II) of clause (i) shall not apply—

(I) except as provided in section 409(d), in the case of an employee who is a 5-percent owner (as defined in section 416 with respect to the plan year ending in the calendar year in which the employee attains [age 70½] *the applicable age*, or

* * * * *

[(iii) ACTUARIAL ADJUSTMENT.—In the case of an employee to whom clause (i)(II) applies who retires in a calendar year after the calendar year in which the employee attains age 70½, the employee’s accrued benefit shall be actuarially increased to take into account the period after age 70½ in which the employee was not receiving any benefits under the plan.]

(iii) ACTUARIAL ADJUSTMENT.—

(I) IN GENERAL.—In the case of a defined benefit plan, an employee’s accrued benefit shall be actuarially increased to take into account the period after the applicable date during which the employee was not eligible to receive any benefits under the plan.

(II) APPLICABLE DATE.—For purposes of clause (I), the term “applicable date” means the April 1st following the calendar year in which the employee attains age 70½.

* * * * *

(v) APPLICABLE AGE.—The applicable age shall be determined in accordance with the following table:

| Calendar year: | Applicable age is: |
|---------------------------|---------------------------|
| 2003 and 2004 | 73 |
| 2005 and 2006 | 74 |
| 2007 and thereafter | 75. |

* * * * *

SEC. 402. TAXABILITY OF BENEFICIARY OF EMPLOYEES’ TRUST.

(a) * * *

* * * * *

(g) LIMITATION ON EXCLUSION FOR ELECTIVE DEFERRALS.—

(1) IN GENERAL—

(A) * * *

(B) APPLICABLE DOLLAR AMOUNT.—For purposes of subparagraph (A), the applicable dollar amount shall be [the amount determined in accordance with the following table:

| [For taxable years beginning in calendar year: | The applicable dollar amount: |
|---|--------------------------------------|
| 2002 | \$11,000 |
| 2003 | \$12,000 |
| 2004 | \$13,000 |
| 2005 | \$14,000 |
| 2006 or thereafter | \$15,000.] |

\$15,000.

* * * * *

SEC. 408. INDIVIDUAL RETIREMENT ACCOUNTS.

(a) * * *

* * * * *

(p) SIMPLE RETIREMENT ACCOUNTS.—

(1) * * *

(2) QUALIFIED SALARY REDUCTION ARRANGEMENT.—

(A) * * *

* * * * *

(E) APPLICABLE DOLLAR AMOUNT; COST-OF-LIVING ADJUSTMENT.—

(i) IN GENERAL.—For purposes of subparagraph (A)(ii), the applicable dollar amount shall be [the amount determined in accordance with the following table:

| For years beginning in dollar amount: | The applicable calendar year: |
|--|--------------------------------------|
| 2002 | \$7,000 |
| 2003 | \$8,000 |
| 2004 | \$9,000 |
| 2005 or thereafter | \$10,000.] |

\$10,000.

* * * * *

Subpart B—Special Rules

* * * * *

SEC. 414. DEFINITIONS AND SPECIAL RULES.

(a) * * *

* * * * *

(v) CATCH-UP CONTRIBUTIONS FOR INDIVIDUALS AGE 50 OR OVER—

(1) * * *

(2) LIMITATION ON AMOUNT OF ADDITIONAL DEFERRALS.—

(A) * * *

(B) APPLICABLE DOLLAR AMOUNT.—For purposes of this paragraph—

(i) In the case of an applicable employer plan other than a plan described in section 401(k)(11) or 408(p), the applicable dollar amount shall be [determined in accordance with the following table:

| For taxable years beginning in: | The applicable dollar amount is: |
|--|---|
| 2002 | \$1,000 |
| 2003 | \$2,000 |
| 2004 | \$3,000 |
| 2005 | \$4,000 |
| 2006 and thereafter | \$5,000.] |

\$5,000.

(ii) In the case of an applicable employer plan described in section 401(k)(11) or 408(p), the applicable dollar amount shall be [determined in accordance with the following table:

| For taxable years beginning in: | The applicable dollar amount is: |
|--|---|
| 2002 | \$500 |
| 2003 | \$1,000 |
| 2004 | \$1,500 |
| 2005 | \$2,000 |
| 2006 and thereafter | \$2,500.] |

\$2,500.

* * * * *

Subchapter E—Accounting Periods and Methods of Accounting

* * * * *

PART II—METHODS OF ACCOUNTING

* * * * *

Subpart B—Taxable Year for Which Items of Gross Income Included

* * * * *

SEC. 457. DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.

(a) * * *

* * * * *

(e) OTHER DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

(1) * * *

* * * * *

(15) APPLICABLE DOLLAR AMOUNT.—

(A) IN GENERAL.—The applicable dollar amount shall be [the amount determined in accordance with the following table:

| [For taxable years beginning in calendar year: | The applicable dollar amount: |
|---|--------------------------------------|
| 2002 | \$11,000 |
| 2003 | \$12,000 |
| 2004 | \$13,000 |
| 2005 | \$14,000 |
| 2006 or thereafter | \$15,000.] |
| \$15,000 | |

* * * * *

VII. DISSENTING VIEWS

The Democratic Members of this Committee would welcome an opportunity to engage in the process of producing bipartisan legislation to address the important issues confronting the American people today. There are many issues that demand our time and attention. However, we do not wish to waste precious time engaging in political posturing. H.R. 5558 has not been reported by this Committee in an effort to make law. The political nature of this effort is clear from the objectionable process under which the legislation has been brought forward.

It is unacceptable protocol to have any serious action of the Committee announced after 4 p.m. on a Friday for Committee action the following Monday. As the Committee was well aware, many Members had already gone back to their district for the week without any knowledge of important matters to bring them back before Monday.

Meaningful debate can occur only when Members are adequately prepared to discuss the issues being considered. Obviously, meaningful debate and consideration were not desired in this instance.

We believe that the short time we have remaining in this congress is far too precious to be wasted in this manner. The state of the American economy, the number of uninsured Americans, the rising level of unemployment, the prohibitive cost of prescription drugs for our seniors, and the lack of security in our pension system—these are all issues that do not afford us the luxury of engaging in political charades.

The legislation being reported by the Committee is ill-timed. The provision to modify the age at which an individual is required to make minimum distributions from his or her Individual Retirement Account (IRA), while worthy of some discussion, does not rise to the level of immediacy that requires this type of action during the last days of the congressional session.

We agree that changes in this area should be considered. However, we believe such changes should be examined as the Social Security reform debate moves forward. For example, one of the President's three privatization plans would effectively raise the retirement age for Social Security. This would, in turn, have an effect on the private pension system. These concerns also extend to the other provisions considered by the Committee that would permit increased contributions to IRAs and employer-sponsored defined contribution plans. We support the Committee's effort to move these issues forward through a deliberative legislative process including hearings, input from experts on pension issues, and an ongoing debate. We believe that it is appropriate to determine the impact these changes would have on our retirement system.

Our country is in a state of economic decline. There has been negative economic growth for the past year. In the past nineteen

months, projected surpluses of \$5.6 trillion have totally disappeared. We are now back to deficit spending for the foreseeable future. We know that most of this change in circumstance is not attributable to the war efforts. As former Treasury Secretary Robert Rubin pointed out during his appearance on CNBC's "After Hours with Maria Bartiromo" on July 15, 2002, while addressing the issue of disappearing surpluses, a large part of the economic damage is due to the tax cut that was put in place last year, partly because of the cost, and partly because it undermined the political cohesion that had developed around fiscal discipline. We should not be enacting any further long term tax cuts. We cannot afford them.

Our economy needs to be revived. We should be engaging in serious debate on how we can bring this about. To restore the economic confidence necessary to accomplish this goal, we need to get our fiscal house in order. We may have disagreements on how to do it but we at least owe it to the American people to have a bipartisan economic debate that puts everything on the table for discussion.

The stock market has lost \$4½ trillion in value in the last two years. This was due, in large measure, to the corporate corruption that has captured the headlines. It is irresponsible for us to end this Congress without any serious attempt to address these issues. While we will agree that Congress cannot legislate morality, we are obligated to take steps to ensure that corrupt corporate executives can not get away with millions in retirement benefits while average working Americans walk away with nothing more than an empty bag, a bag that once held a secured retirement and a job that enabled them to take care of their families.

There has been no shortage of reports of corporate executives who have reaped millions of dollars acting on insider information to enrich themselves at the expense of thousands of rank-and-file employees. Executives from companies such as Enron and Global Crossing escaped their companies' bankruptcies with millions of dollars that could not be reached by the creditors of these companies. Yet many employees lost all their retirement savings in their 401(k) plans which were invested in the same company stock that made millions of dollars for the executives. These executives were rewarded for driving their companies into the ground. Yet, this Committee, which has jurisdiction over these issues, has made no attempt to address them.

We welcome the opportunity to begin a serious debate on how we can resolve these issues. We would prefer to utilize the time spent on the legislation before us developing bipartisan legislation that would address these corporate abuse issues. Rep. Matsui has introduced two bills that would require corporations to act in a more responsible manner with respect to executive compensation. We would welcome any opportunity before this Congress adjourns to have this legislation considered and brought to a vote.

The issue of prohibitive prescription drug costs also is very real. Few issues are of greater importance to Medicare beneficiaries than the issue of adding a prescription drug benefit to Medicare. The skyrocketing costs of prescription drugs affect all geographic, racial, and economic groups. Unfortunately, the Republicans have been unwilling to show the necessary leadership on this issue to enact a benefit bill this year. We believe that if we are serious

about the state of this country and the issues that must be addressed it may not be too late to reach an acceptable resolution of this issue. We should not adjourn without passing legislation in this area. No Medicare beneficiary should have to choose between putting food on the table and paying for needed medications. Rather than use the Committee for political posturing, we need to occupy ourselves with the pressing issues affecting the lives of the American people.

The unemployment situation is another issue we should be trying to resolve today. As of September 2002, there were 5.7 million Americans unemployed. Many of these individuals are running out of unemployment benefits. These individuals need jobs. They have responsibilities for themselves and their families. But, the job market is stagnant. In addition, being unemployed all too often means being without health insurance coverage for yourself or your family members. How can we claim to be engaging in serious legislation when the Republican leadership consistently has failed to address these issues, or provide a forum for serious debate?

With all the challenges our country is facing we should be working constantly to find solutions. Instead, we are being asked to engage in political grandstanding. This is not the time for such antics. We must report to the American people, and they will be listening for the report. We can not afford to engage in efforts that continue to ignore our serious domestic issues. Failure to act will exact a high price from us all, including our constituents.

C.B. RANGEL.
ROBERT T. MATSUI.
JERRY KLECZKA.
SANDER LEVIN.
JOHN LEWIS.
WILLIAM J. COYNE.
BEN CARDIN.
PETE STARK.
XAVIER BECERRA.
JIM McDERMOTT.
EARL POMEROY.
RICHARD E. NEAL.
WILLIAM M. JEFFERSON.

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