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Pensions and Retirement Saving Plans: Comparison of H.R. 1776 with Current Law

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Summary

H.R. 1776, (Portman/Cardin) the *Pension Preservation and Savings Expansion Act* was ordered to be reported (as amended) by the Committee on Ways and Means on July 18, 2003. Among the major provisions of the bill, it would:

- accelerate the scheduled increases in contribution limits to individual retirement accounts and employer-sponsored plans, as included in the EGTRRA of 2001;
- expand and extend a non-refundable income tax credit for low- and moderate-income individuals who contribute to a qualified retirement plan;
- replace for three years the interest rate on 30-year Treasury bonds as the rate used by defined benefit plans to calculate funding ratios with a rate based on an index of high-quality, long-term corporate bonds;
- allow up to $2,000 of certain retirement annuity income to be free of income taxes during each of the first 5 years such income is received;
- raise the age at which participants must begin to take distributions from pension plans and individual retirement accounts from 70½ to 75, and reduce the excise tax for not taking distributions from 50% to 20% of the amount not distributed;
- accelerate the schedule on which employees must be fully vested in an employer's contributions to a defined contribution plan;
- allow nontaxable transfers of IRA of assets to the IRA of a spouse or former spouse;
- increase the permissible deduction for employers that maintain both a defined benefit and defined contribution plan;
- allow public-safety employees to take distributions from a Deferred Retirement Option Plan before age 59½ without being subject to the 10% penalty for distributions made before age 59½;
- allow small employers to make additional contributions to SIMPLE retirement plans;
- allow disabled persons to contribute to individual retirement accounts (IRAs).

The sections of **H.R. 1776** that amend provisions of law enacted by the *Economic Growth and Tax Relief Reconciliation Act of 2001* ("EGTRRA," P.L. 107-16) are subject to the "sunset" provision of section 901 of EGTRRA, which provides that the Act shall not apply after December 31, 2010.

The provision of **H.R. 1776** that would replace the interest rate on 30-year Treasury bonds as the rate used by defined benefit plans to calculate funding ratios with a rate based on an index of high-quality, long-term corporate bonds was introduced as a separate bill, **H.R. 3108** (Boehner), on September 17, 2003.

This report will be updated as further legislative developments occur.

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Introduction

H.R. 1776, (Portman/Cardin) the *Pension Preservation and Savings Expansion Act* was ordered to be reported (as amended) by the Committee on Ways and Means on July 18, 2003. Provisions of the bill would accelerate the scheduled increases in contribution limits to individual retirement accounts and employer-sponsored plans, as included in the EGTRRA of 2001, and would expand and extend a non-refundable income tax credit for low- and moderate-income individuals who contribute to a qualified retirement plan. The bill would replace for three years the interest rate on 30-year Treasury bonds as the rate used by defined benefit plans to calculate funding ratios with a rate based on an index of conservatively invested, long-term corporate bonds.

The bill would allow up to $2,000 of certain retirement annuity income to be free of income taxes during each of the first 5 years such income is received. It would raise the age at which participants must begin to take distributions from pension plans and individual retirement accounts from 70½ to 75, and reduce the excise tax for not taking distributions from 50% to 20% of the amount not distributed. It would accelerate the schedule on which employees must be fully vested in an employer's contributions to a defined contribution plan, and it would allow nontaxable transfers of IRA assets to the IRA of a spouse or former spouse.

The bill would increase the permissible deduction for employers that maintain both a defined benefit and defined contribution plan and allow public-safety employees to take distributions from a Deferred Retirement Option Plan before age 59½ without being subject to the 10% penalty for distributions made before age 59½. It would allow small employers to make additional contributions to a SIMPLE retirement plan, and allow disabled persons to contribute to individual retirement accounts (IRAs). The sections of H.R. 1776 that amend provisions of law enacted by the *Economic Growth and Tax Relief Reconciliation Act of 2001* ("EGTRRA," P.L. 107-16) are subject to the "sunset" provision of section 901 of EGTRRA, which provides that the Act shall not apply after December 31, 2010. The following pages provide a side-by-side comparison of all provisions of H.R. 1776 with current law.

Side-by-Side Comparison of H.R. 1776 as Ordered Reported in the House of Representatives with Current Law

Section title	Current law	H.R. 1776
Title I. Building and preserving retirement assets and enhancing portability		
Section 101. Acceleration of scheduled increases in pension plan contribution limits	Section 611 of EGTRRA amended the I.R.C. to increase the maximum annual employee contribution to qualified retirement plans authorized under Sections 401(k), 403(b), and 457(b), according to the following schedule: **Year** **Maximum employee contribution** 2003 $12,000 2004 $13,000 2005 $14,000 2006 $15,000*	The maximum annual employee contribution to qualified retirement plans authorized under Sections 401(k), 403(b), and 457(b) would be increased to $15,000 in 2004 and indexed to inflation in $500 increments in later years.
	EGTRRA §611 increased the maximum employee contribution to a SIMPLE retirement plan under Section 408(p): **Year** **Maximum employee contribution** 2003 $ 8,000 2004 $ 9,000 2005 $10,000*	The maximum annual employee contribution to a SIMPLE retirement plan would be increased to $10,000 in 2004 and indexed to inflation in $500 increments in later years.
	EGTRRA §631amended I.R.C. §414(v) to permit additional contributions by people 50 and older: **Year** **401(k), 403(b), 457(b)** **SIMPLE** 2003 $2,000 $1,000 2004 $3,000 $1,500 2005 $4,000 $2,000 2006 $5,000* $2,500* *Indexed to inflation in $500 increments.	The maximum additional contribution to plans under Sections 401(k), 403(b), and 457(b) by individuals age 50 and older would be increased to $5,000 in 2004 and indexed to inflation in later years. The maximum additional contribution to a SIMPLE plan by individuals age 50 and older would be increased to $2,500 in 2004 and indexed to inflation in $500 increments in later years.

<table>
<tr><th>Section title</th><th>Current law</th><th>H.R. 1776</th></tr>
<tr><td>Section 102. Acceleration of scheduled increases in IRA contribution limits</td><td>Section 601 of EGTRRA increases the maximum annual contribution to an IRA according to the following schedule:

Year — Maximum contribution

2002 to 2004 — $3,000
2005 to 2007 — $4,000
2008 — $5,000

After 2008, the maximum contribution is indexed to inflation in $500 increments.

EGTRRA allows individuals age 50 and older to make additional contributions to IRAs, according to the following schedule:

Year — Additional contribution

2002 to 2005 — $ 500
2006 and later — $1,000</td><td>The maximum annual contribution to an IRA would be increased to $5,000 in 2004 and indexed to inflation in $500 increments in later years.

The maximum additional contribution to an IRA for persons age 50 and older would be increased to $1,000 in 2004 and later years.</td></tr>
<tr><td>Section 103. Extension and expansion of saver's credit</td><td>Section 618 of EGTRRA authorizes a non-refundable tax credit equal to a percentage of the first $2,000 contributed annually to a qualified retirement plan by low- and moderate-income individuals and families. The credit does not apply to years after 2006. The credit is applied according to the following schedule:

Single return — Joint return — Credit

AGI < $15,000 — AGI < $30,000 — 50%
15,001-16,250 — 30,001-32,500 — 20%
16,251-25,000 — 32,501-50,000 — 10%</td><td>The non-refundable credit would be extended through 2010, indexed for inflation, and expanded for tax years after 2003 according to the following schedule:

Single return — Joint return — Credit

AGI < $15,000 — AGI < $30,000 — 50%
15,001-20,000 — 30,001-40,000 — 20%
20,001-25,000 — 40,001-50,000 — 10%</td></tr>
</table>

Section title	Current law	H.R. 1776
Section 104. Faster vesting of employer nonelective contributions	Under I.R.C. Section 411(a), employees must be fully vested in *nonelective* employer contributions (i.e., contributions other than matching contributions) after no more than 5 years of service, or in increments of 20% beginning in the 3rd year with full vesting after 7 years. Employees must be fully vested in employer *matching contributions* after no more than 3 years of service, or in increments of 20% beginning in the 2nd year with full vesting after 6 years.	Vesting in nonelective employer contributions would be the same as the vesting schedule for employer matching contributions. Employees would be fully vested in nonelective employer contributions to a defined contribution plan after no more than 3 years of service, or in increments of 20% beginning in the 2nd year with full vesting after 6 years.
Section 105. Allow transfers to spouse's retirement plan	Under I.R.C. Section 408, transfer of IRA assets from the IRA owner to his or her spouse's IRA is taxable except in cases of divorce or death of the account owner.	Transfer of IRA assets between spouses' IRAs would in most cases not be treated as a taxable distribution.
Section 106. Allow rollovers by nonspouse beneficiaries of certain retirement plan distributions	If a participant in an employer-sponsored plan dies and the named beneficiary of the deceased participant is not the participant's spouse, distributions from the plan to the named beneficiary cannot be rolled over into another tax-qualified plan and are taxable distributions. If the owner of an IRA dies, and the named beneficiary of the deceased account owner is not the account owner's spouse, the beneficiary may maintain the IRA in the name of the decedent. The beneficiary is required to take distributions from the plan based on his or her remaining life expectancy. If an employer-sponsored plan requires more rapid distributions (e.g., a lump sum), the plan's rules control the distribution.	A non-spouse beneficiary of a deceased plan participant could transfer the assets of the plan to an IRA in the deceased participant's name and receive distributions from the IRA over his or her remaining life expectancy.
Section 107. Allow rollover of after-tax amounts in annuity contracts	Section 643 of EGTRRA provided that distributions from a tax-qualified employer-sponsored plan or an IRA that include amounts that were contributed on an after-tax basis by the plan participant can be rolled over into an IRA or another employer-sponsored plan.	Clarifies that amounts that were contributed on an after-tax basis to a §403(b) annuity may be rolled over into a §401(k) plan, and vice versa.

Section title	Current law	H.R. 1776
Section 108. IRA eligibility for the disabled	Individual Retirement Accounts (IRAs) were authorized by Congress in the Employee Retirement Income Security Act of 1974 (ERISA, P.L. 93-406) to give employees without access to an employer-sponsored retirement plan the opportunity to save for retirement on a tax-deferred basis. IRA contributions are limited to the lesser of a specific dollar amount (currently $3,000) or the individual's *earned income* for the year.	Disabled persons, as defined in I.R.C. §72(m)(7), could contribute to an IRA, regardless of whether they had earned income for the year of the contribution, provided that they had not yet reached the age at which required minimum distributions must begin. (Under current law, required minimum distributions must begin no later than April of the year after reaching age 70½. H.R. 1776 would delay the RMD date to age 72 through 2007 and age 75 thereafter.)
Section 109. Exclusion of certain annuity payments from taxable income	Most distributions from retirement plans are taxed as ordinary income, regardless of whether they are received as a lump-sum distribution or in the form of an annuity. (That part of any distribution that represents repayment to the participant of amounts that he or she contributed to the plan with after-tax dollars is excluded from taxable income.)	As an incentive for plan participants to choose annuity payments rather than lump-sum distributions, a percentage of annuity payments from an employer-sponsored defined contribution plan or an IRA could be excluded from taxable income during the first 5 years that the annuity payments are received. The exclusion would apply to 10% of otherwise taxable annuity income, up to 50% of the limit under I.R.C. §415(c)(1)(A), which is currently $40,000. Thus, the maximum amount that could be excluded from income in 2004 would be 10% of 50% of $40,000, or $2,000. The exclusion would be phased out for single tax filers with adjusted gross income between $60,000 and $75,000 and for joint filers with AGI from $120,000 to $150,000.

Section title	Current law	H.R. 1776
Title II. Revitalizing defined benefit pension plans		
Section 201. Tax treatment of employee contributions to contributory defined benefit plans	In the private sector, most defined benefit plans are funded entirely by the employer. If employees are required to contribute, the employee contributions must be made on an *after-tax* basis. In the public sector, most governmental defined benefit plans require employees to contribute to the plan; however, governmental employers can choose to take employee contributions on a *pre-tax* basis. (*Note*: Federal employee contributions to CSRS and FERS are made with *after-tax* income.)	Employers in the private sector could treat employee contributions to defined benefit plans of up to 2.0% of pay as contributions of *pre-tax* dollars.
Section 202. Reform of the minimum participation rule	I.R.C. Section 401(a)(26) requires a defined benefit plan to cover no fewer than the lesser of (1) 50 employees or (2) 40% of the employer's employees.	The Secretary of the Treasury would be required to issue regulations on the application of I.R.C. Section 401(a)(26), relating to minimum participation requirements in defined benefit plans, during a transition period after a firm acquires or sells another firm.
Section 203. Temporary replacement of 30-year Treasury rate	The I.R.C. requires the interest rate on 30-year U.S. Treasury Bonds to be used (1) to determine the funded status of a defined benefit plan, (2) to calculate the amount of lump-sum distributions to plan participants, and (3) to determine maximum benefit amounts. The Treasury Department no longer issues 30-year bonds.	For determining the funded status of defined benefit plans, the interest rate on 30-year Treasury Bonds would be replaced for a three-year period (2004, 2005, 2006) with an interest rate based on "amounts conservatively invested long-term corporate bonds." For calculating lump-sum distributions, the corporate bond rate apply only in 2006. For determining maximum benefit amounts under I.R.C. §415(b)(2)(E)(ii), the Treasury interest rate would be replaced by a rate of 5.5% in 2004, 2005, and 2006.

Section title	Current law	H.R. 1776
Section 204. Updating deduction rules for combination of plans	I.R.C. Section 407(a)(7) limits the deduction that can be taken by an employer who sponsors both a defined benefit plan and a defined contribution plan.	Would limit the application of the I.R.C. Section 407(a)(7) deduction limits to cases in which employer contributions to one or more defined contribution plans exceed 6% of the compensation paid to plan participants.
Title III. Expanding small business retirement plan coverage		
Section 301. Allow additional nonelective contributions to SIMPLE plans	P.L. 104-188 allows employers with 100 or fewer employees to establish a Savings Incentive Match Plan for Employees (SIMPLE). Under a SIMPLE plan, an employer must either (1) match 100% of employee salary deferrals up to 3% of pay to a maximum match of $6,000 in 2003 for all *participating* employees or (2) make a nonelective employer contribution of 2% of pay up to $4,000 in 2003 for all *eligible* employees. No other employer contributions are permitted.	An employer could choose to make an additional nonelective contribution of a uniform percentage of pay up to 10% of total compensation for each eligible employee, regardless of whether or not the employer also makes a matching contribution.
Section 302. Conform matching contribution rules for SIMPLE IRAs and SIMPLE 401(k)s	Under the SIMPLE IRA, an employer can reduce its contribution to 1% of pay in 2 years out of any 5. Reduced contributions are not permissible in a SIMPLE 401(k).	An employer that sponsors a SIMPLE 401(k) could make matching contributions of less than 3% of pay, provided that the contribution is at least 1% of pay and the reduced contribution is not in effect for more than 2 years in a 5-year period ending in the current year.
Section 303. Correction of Simplified Employee Pension compensation inconsistency	Under a Simplified Employee Pension (SEP), the maximum deduction an employer can take for employer contributions to the plan is 25% of the total compensation of the firm's employees. For purposes of the deduction, employee compensation is *gross compensation*, including salary deferrals. Employer contributions to a SEP are limited to the *lesser of* (1) an employee's *taxable compensation* (i.e., net of salary deferrals and (2) $40,000 (indexed to inflation).	For purposes of applying the 25% limit on contributions, compensation would be defined to be gross compensation (including salary deferrals), as in I.R.C. Section 415(c)(3).

Section title	Current law	H.R. 1776
Section 304. Allow level dollar contributions to SEPs	Employer contributions to a Simplified Employee Pension (SEP) are required to be the same percentage of pay for all participating employees.	Would allow employer contributions to be made in the same dollar amount for all participating employees.
Section 305. Tax treatment of certain nontrade or business SEP contributions	Nondeductible employer contributions to a qualified retirement plan are usually subject to a 10% excise tax. Section 637 of EGTRRA provided that the 10% excise tax will not apply to contributions to a SIMPLE retirement account under I.R.C. Section 408(p) or a SIMPLE plan under I.R.C. Section 401(k)(11) that are non-deductible "solely because such contributions are not made in connection with a trade or business of the employer."	The 10% excise tax on nondeductible employer contributions would be waived in the case of nondeductible contributions to a Simplified Employee Pension (SEP), as well as in the case of contributions to a SIMPLE IRA or a SIMPLE plan.
Title IV. Expanding retirement savings for tax-exempt organizations and government employees		
Section 401. Waiver of 10 percent early withdrawal penalty tax on certain distributions of pension plans for public safety employees	Under I.R.C. Section 72(t), a 10% penalty is imposed on most distributions from an employer-sponsored plan that occur before age 59½. Exceptions are provided for participants who retire at age 55 or older, die, become disabled, purchase a home, pay qualified educational or health insurance expenses, or receive the distributions in a series of substantially equal periodic payments based on life expectancy or the joint life expectancies of the participant and his or her designated beneficiary.	Public safety employees such as police and firefighters often are eligible to retire earlier than other workers. H.R. 1776 would waive the 10% penalty on distributions before age 59½ for public safety employees who participate in a "deferred retirement option plan" (DROP) in which a retirement eligible employee continues to work and pension distributions are paid into a personal account.
Section 402. Clarifications regarding purchase of permissive service credit	Employees of state and local governments who move from one state or locality to another often can purchase service credit in the new employer's defined benefit pension plan. Section 647 of EGTRRA provided that distributions from a defined contribution plan under I.R.C. Section 403 or Section 457 will not be taxable income if used to purchase service credit.	I.R.C. Sections 403 and 457 would be amended to facilitate the use of distributions from 403 and 457 plans to purchase service credit under state and local defined benefit plans. Would clarify that the defined benefit plan's distribution rules would apply to the transferred amounts.
Section 403. Eligibility for participation in retirement plans	No provision.	Provides that an individual is not precluded from participating in an eligible deferred compensation plan by reason of having received a distribution from a §457 plan as in effect before the *Small Business Job Protection Act of 1996.*

Section title	Current law	H.R. 1776
Section 404. Clarification of minimum distribution rules	Distributions from an employer-sponsored retirement plan must begin at age 70½, or at retirement, if later.	The Secretary of the Treasury would issue regulations under which a governmental plan may be treated as having complied with the minimum distribution rules if the plan complies with a "reasonable good faith interpretation" of those rules.
Section 405. Church plan rule	Under I.R.C. Section 415(b), the maximum annual benefit under a single-employer defined benefit retirement plan is the lesser of (1) the average of the participant's 3 highest years of pay or (2) $160,000 (indexed to inflation). The maximum benefit under a governmental plan or a multi-employer plan is $160,000.	Except for some highly-compensated employees, the maximum annual benefit provided by defined benefit plans of churches and religious institutions would be $160,000, even if this is greater than the average of the participant's 3 highest years of pay.
Title V. Simplification and equity		
Section 501. Updating of the minimum distribution rules	Section 401(a)(9) of the Internal Revenue Code (I.R.C.) requires plan participants and owners of traditional IRAs to begin taking distributions no later than April of the year after reaching age 70½. There is an exception that allows participants in employer-sponsored plans who are still working at age 70½ to delay distributions until April of the year after they have retired, unless they own 5% or more of the firm. Distributions must be made over the life expectancy of the plan participant, or over the joint life expectancies of the plan participant and his or her designated beneficiary. If a participant in a defined benefit plan retires after age 70½, the benefit must be increased in an actuarially fair manner. Failure to take a required distribution results in a tax penalty equal to 50% of the amount that should have been distributed.	The required beginning date for distributions would be increased from age 70½ to 75 on the following schedule: **Year** — **Required Beginning Date:** 2004-2007 — Age 72 2008 and later — Age 75 As under current law, distributions could be delayed until retirement (if later) except for traditional IRAs and 5% owners of a firm. Actuarial adjustment would continue to be required for defined benefit plan participants who retire after age 70½. The excise tax for failure to take a required minimum distribution would be reduced from 50% to 20% of the amount that should have been distributed. Provisions would be effective after December 31, 2003.

Section title	Current law	H.R. 1776
Section 502. Clarification of catch-up contributions	Section 631 of EGTRRA amended I.R.C. Section 414(v) to permit individuals age 50 and older to make additional contributions to retirement plans. An employer that chooses to allow employees to make "catch-up" contributions must do so for all eligible employees.	The nondiscrimination rules under I.R.C. 414(v)(4) for catch-up contributions would be amended to provide an exception for qualified plans in Puerto Rico that do not provide catch-up contributions. The aggregation rule would be amended to except employees in collectively bargained plans and nonresident aliens who have no earned income from the employer in the U.S. Would provide that the universal applicability requirement could be satisfied separately with respect to separate lines of business in some cases.
Section 503. Transfers to the PBGC	I.R.C. Section 411(a)(11) provides that if the present value of a participant's vested benefit exceeds $5,000, a plan may not distribute the accrued benefit to a departing employee without his or her consent. Section 657 of EGTRRA amended I.R.C. Section 401(a)(31) to require the direct transfer to an IRA of distributions of less than $5,000 (but more than $1,000) unless the participant directs the distribution to another eligible plan or elects to receive the distribution in cash. If a participant in a terminated plan cannot be located, the plan is authorized to purchase an annuity or transfer the benefits of the participant to the Pension Benefit Guaranty Corporation (PBGC). Neither defined benefit plans that have not terminated nor defined contribution plans can transfer benefits of missing participants to the PBGC.	Would amend I.R.C. §401(a)(31)(B) such that mandatory distributions from qualified plans could be transferred to the PBGC rather than an IRA. A transfer to the PBGC would be treated as a transfer to an IRA under the I.R.C., and a subsequent distribution to the plan participant would be treated as a distribution from an IRA. Would extend the PBGC's missing participants program to cover terminating multi-employer plans. Would extend the missing participants program on a voluntary basis to certain defined contribution plans and uncovered defined benefit plans.
Section 504. Allow direct rollovers from retirement plans to Roth IRAs	Individuals with modified adjusted gross income under $100,000 can convert a traditional IRA to a Roth IRA. The converted amount, minus the amount originally contributed to the IRA by the participant (the account "basis") is treated as taxable income in the year of the conversion. Assets held in an employer-sponsored plan cannot be rolled over into a Roth IRA; however, they can be rolled over into a traditional IRA which can then be converted to a Roth IRA.	Individuals with modified adjusted gross income under $100,000 could roll over a distribution from an employer-sponsored plan to a Roth IRA. The converted amount, minus the amount originally contributed to the plan by the participant (the account "basis") would be treated as taxable income in the year of the conversion.

Section title	Current law	H.R. 1776
Section 505. Reform excise tax on excess contributions	Certain contributions to a retirement plan in excess of the annual maximum are subject to an excise tax of 10% of the excess contribution. The excise tax is not levied if the excess contribution is distributed or forfeited within 2½ months of the end of the plan year. Amounts distributed within the 2½ month limit usually are included in employee income in the year they were contributed to the plan. If the distribution is less than $100 or occurs more than 2½ months after the end of the plan year, it is included in income in the year distributed.	The 2½ month time limit on corrective distributions would be extended to 6 months. Amounts distributed would be treated as earned and received in the year the distribution was made.
Section 506. Intermediate sanctions for inadvertent failures	A plan that fails to meet a requirement or requirements of the I.R.C. may be disqualified. In general, the I.R.C. does not provide for lesser sanctions. In practice, the I.R.S. allows most plans to correct violations, and it has established the Employee Plans Compliance Resolution System to facilitate the process.	A plan that inadvertently violates a provision of the I.R.C. would not be disqualified if it has made a good faith effort at compliance and corrects the violation. Plans subject to audit may be charged a fee by the IRS. In the event of disqualification, non-highly compensated employees would not have to include employer contributions and earnings on plan contributions in their taxable income.

Section title	Current law	H.R. 1776
Section 507. Clarification of substantially equal periodic payment rule	Under I.R.C. Section 72(t), distributions from an employer-sponsored plan or IRA that occur before age 59½ are subject a 10% penalty. There are several exceptions to the 10% penalty, including distributions made as a series of substantially equal periodic payments that are based on the life expectancy of the plan participant or the joint life expectancies of the participant and his or her designated beneficiary. If the series of payments is terminated or modified (except because of death or disability) before *the later of* age 59½ or the end of a 5-year period beginning on the date of the first distribution, the entire series of distributions is then subject to the 10% penalty. Under Revenue Ruling 2002-62, an individual can elect a one-time change in the series of equal periodic payments without incurring the tax penalty. The ruling further specifies that either a nontaxable transfer of a portion of the account balance to another retirement plan or a rollover of the amount received by the taxpayer to another account will be treated as a modification of the series of payments, resulting in all distributions being subject to the 10% tax penalty. The ruling also specifies that the interest rate used in calculating these payments may not exceed 120% of the federal mid-term rate.	Would provide that if amounts are being received as a series of substantially equal periodic payments, and a transfer or rollover "of all or a portion of the taxpayer's benefit" is made into another tax-qualified retirement plan, the 10% tax penalty will not be applied if the payments from both plans would in combination continue to satisfy I.R.C. §72(t) if they were made only from the transferor plan. Provides that any "reasonable" interest rate may be used in determining whether distributions are substantially equal periodic payments.
Section 508. Clarification of treatment of distributions of annuity contracts	I.R.C. Section 402(e)(4) provides that if a plan participant receives a lump-sum distribution that includes employer securities, any net unrealized appreciation attributable to that part of the distribution which consists of employer securities shall be excluded from gross income.	Amends I.R.C. Section 402(e)(4)(D) to provide that a distribution of an annuity contract from a trust or annuity plan may be treated as a part of a lump sum distribution. Effective, December 31, 1999 (i.e., as if included in §1401(b) of P.L. 104-188).

Section title	Current law	H.R. 1776
Section 509. Allow certain plan transfers and mergers	An employer that wishes to change from one kind of individual account plan to another (e.g., from a plan authorized under I.R.C. Section 401 to one authorized under I.R.C. Section 403, or vice versa) must sometimes maintain the old plan, even though it receives no more employee salary deferrals or employer contributions.	The Secretary of the Treasury would publish regulations under which assets held in one kind of individual account plan maintained by an employer could be transferred to another individual account plan maintained by that employer. The regulation must provide for the protection of participants' and spouses' rights.
Section 510. Treatment of YMCA retirement fund	Churches and some church-related organizations can sponsor retirement plans under I.R.C. Section 403(b)(9).	Would provide that the Young Men's Christian Association (YMCA) Retirement Fund is a church plan under I.R.C. Section 403(b)(9).
Title VI. Other tax provisions relating to pensions		
Section 601. Reporting simplification	A "one-participant plan" covers only a business owner and his or her spouse. These plans are exempt from some reporting requirements if assets are under $100,000, and must file simplified reports in other instances.	One-participant plans with assets under $250,000 would be exempt from some reporting requirements. The Secretary of the Treasury and the Secretary of Labor would develop simplified reporting for plans with fewer than 25 participants.
Section 602. Improvement of employee plans compliance resolution system	A plan that fails to meet a requirement or requirements of the I.R.C. may be disqualified. In general, the I.R.C. does not provide for lesser sanctions. In practice, the I.R.S. allows most plans to correct violations, and it has established the Employee Plans Compliance Resolution System to facilitate the process.	The Secretary of the Treasury would be directed to continue to improve the Employee Plans Compliance Resolution System, with special emphasis on the needs of small employers.
Section 603. Extension of moratorium on application of certain nondiscrimination rules to all governmental plans	The Taxpayer Relief Act of 1997, P.L. 105-34 exempted state and local government plans from certain rules that prohibit discrimination in favor of highly compensated employees.	Would exempt all governmental plans, as defined in I.R.C. Section 414(d), from the rules on minimum participation and nondiscrimination in favor of highly compensated employees.
Section 604. Notice and consent period regarding distributions	A plan must provide information on forms of distribution and taxation of eligible rollover distributions no more than 90 days before the date of the distribution.	The required notices could be provided up to 180 days before the date of the distribution. The Secretary of the Treasury would issue regulations to provide that the description of a participant's right, if any, to defer receipt of a distribution shall also describe the consequences of failing to defer such receipt.

Section title	Current law	H.R. 1776
Section 605. Reduced PBGC premium for new plans of small employers	Defined benefit plans are required by law to pay a premium of $19 per participant per year to the Pension Benefit Guaranty Corporation.	Employers with fewer than 100 employees that adopt a defined benefit plan would pay a reduced premium of $5 per participant for each of the first 5 years of the plan.
Section 606. Reduction of additional PBGC premiums for new and small plans	Underfunded plans are required to pay a supplemental premium (the variable rate premium) because of their higher risk of failure.	If a new plan is subject to a supplemental premium, it would be phased in over 6 years. Supplemental premiums for firms with fewer than 25 employees would be capped at $5 per participant per year.
Section 607. Authorization for PBGC to pay interest on premium overpayment refunds	The Pension Benefit Guaranty Corporation is not authorized to pay interest on refunds of premium overpayments.	The Pension Benefit Guaranty Corporation would be authorized to pay interest on refunds of premium overpayments.
Section 608. Substantial owner benefits in terminated plans	In the case of a plan termination, the benefits paid by the PBGC to a "substantial owner" of a business (owner of 10% or more of a company) are subject to special rules.	The same 5-year phase-in of benefit guarantees that applies to non-owners would apply to a substantial owner with less than a 50% interest. For an owner with more than a 50% interest, the phase-in would be based on the number of years the plan has been in effect.
Title VII. Stock options		
Section 701. Exclusion of incentive stock options and employee stock purchase plan options from wages	In November 2001, the Treasury issued proposed regulations that would have made stock options subject to Social Security payroll taxes when the options were exercised. A subsequent notice (2002-47) suspended the proposed regulations indefinitely.	Would provide that stock options exercised under an incentive stock option plan or an employee stock purchase plan are not subject to payroll taxes.
Title VIII. Miscellaneous provisions		
Section 801. Provisions relating to plan amendments	No provision.	Plan amendments required by the passage of H.R. 1776 would not have to be made before the last day of the plan year beginning on or after January 1, 2006. Except as provided for in Treasury regulations, plan amendments will not be construed to violate the "anti-cutback" rules of I.R.C. Section 411(d). For governmental plans, the required date for plan amendments would be the end of the first plan year beginning on or after January 1, 2008.

Section title	Current law	H.R. 1776
Section 802. Application of EGTRRA sunset	Section 901of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA," P.L. 107-16) provides that the Act shall not apply after December 31, 2010.	Any amendment made by H.R. 1776 that amends a provision of law enacted by EGTRRA (P.L. 107-16) is subject to the "sunset" provision of title IX of EGTRRA.