

February 5, 2004

TO: NCTR Members

FROM: Cindie Moore, Washington Counsel

RE: New Pension Initiative by Reps. Portman and Cardin; **Action Alert**

Hi, everyone. The two House pension champions, Reps. Rob Portman (R-OH) and Ben Cardin (D-MD) announced to pension representatives today an alternative to the Administration's three-part Savings Proposal. Their initiative concentrates on the Retirement Savings Account (RSA) part of the Proposal. It would not include the other more controversial portions, the Lifetime Savings Account (LSA) and the Employer Retirement Savings Account (ERSA).

The initiative is similar to the Administration's RSA proposal in several ways. Rep. Portman cited the following examples. First, it would allow individuals to contribute up to \$5,000 per year into an account for retirement purposes. Second, it would be universally available, regardless of a person's income. Third, existing IRAs would be largely eliminated.

The initiative has a dramatic difference, however. It would build on the existing savers credit, the purpose of which is to encourage low-income workers to save for retirement. Under current law, low-income workers are eligible for a non-refundable tax credit on certain retirement savings. In order to use the credit, such workers must have a tax liability. The initiative would make two changes. First, it would allow workers without a tax liability to use the credit. Second, it would include a matching contribution from the federal government. Still unresolved is whether contributions into the proposed accounts would be pre-tax like 403(b)/457 contributions or post-tax like Roth IRAs. Many other details also need to be worked out.

Please respond to the following questions:

-Should state and local government retirement plans, such as 403(b)s and 457s, be allowed to offer these proposed accounts if they wished? If so, workers could contribute to their 403(b)/457 and, if they so qualified, could also make a contribution into the proposed account and receive a federal match.

-Assuming that funds going into the proposed accounts are post-tax, would 403(b) and 457 administrators be able to keep separate the pre-tax funds in the 403(b)/457 accounts and post-tax funds in the proposed accounts?

-As a related matter, would 403(b) and 457 administrators be willing to deal with the federal match on the proposed accounts, including the extra work involved?

The initiative would be part of a larger pension bill that would encompass some aspects of H.R. 1776, a pension bill introduced by Reps. Portman and Cardin last year. That bill, although widely supported, faced difficulty during Committee consideration July 18, 2003 for reasons unrelated to pensions. I will be working with other public pension reps to have the helpful items for state and local plans in H.R. 1776 and the related Senate bill, the National Employee Savings Trust Equity Guarantee Act (NESTEG Act, no bill number yet) included in the new bill.

During the announcement, Reps. Portman and Cardin were asked whether ERSAs, which, as proposed by the Administration, would consolidate 401(k)s, 403(b)s, and 457s into a single plan, would be part of their initiative. They said that such consolidation is already taking place. For example, the 2001 tax cut bill made identical the maximum annual contribution limits for 401(k)s, 403(b)s, and 457s. It also created portability among the three types of plans. In addition, further consolidation is made in H.R. 1776, which would, presumably, be included when the initiative is formally introduced.

Rep. Portman has spoken to Rep. Bill Thomas, the Chairman of the Ways and Means Committee, which would have to act on the initiative. Mr. Portman reported that Chairman Thomas wants to work with both him and Rep. Cardin on it.

Reps. Portman and Cardin want to move quickly on the initiative and hope to introduce it shortly. They will then push for action in March or April.

The timing of the announcement is auspicious. The three major public pension groups, NCTR, NASRA, and NCPERS, will be in Washington next week, which will offer an opportunity for discussion.

On a parallel track, Rep. Sam Johnson (R-TX) and Sen. Craig Thomas (R-WY) are planning to introduce the Administration's Proposal. It will feature all three parts of the Proposal – RSAs, LSAs, and ERSAs. As noted above, the Portman-Cardin initiative will concentrate on RSAs and items from H.R. 1776.

I'll keep you posted on developments.