

103^D CONGRESS
2^D SESSION

H. R. 4534

To amend the Internal Revenue Code of 1986 to facilitate portability, enhance pension coverage, and provide employers an optional simplified method of complying with certain pension requirements.

IN THE HOUSE OF REPRESENTATIVES

MAY 26, 1994

Mr. WHEAT introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to facilitate portability, enhance pension coverage, and provide employers an optional simplified method of complying with certain pension requirements.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SIMPLIFIED METHOD FOR COMPLYING WITH**
4 **PENSION REQUIREMENTS.**

5 (a) GENERAL RULE.—Subpart B of part I of sub-
6 chapter D of chapter 1 of the Internal Revenue Code of
7 1986 is amended by adding at the end the following new
8 section:

1 **“SEC. 417A. SIMPLIFIED METHOD FOR COMPLYING WITH**
2 **PENSION REQUIREMENTS.**

3 “(a) GENERAL RULE.—An employer is entitled to the
4 benefits of this section for any year if—

5 “(1) such employer maintains a qualified sim-
6 plified defined contribution plan during such year,
7 and

8 “(2) such employer maintains a qualified sim-
9 plified defined benefit plan during such year.

10 “(b) BENEFITS OF SECTION.—If an employer is enti-
11 tled to the benefits of this section for any year—

12 “(1) INCREASE IN PERMITTED COMPENSA-
13 TION.—In applying sections 401(a)(17) and 404(l)
14 to the qualified simplified defined contribution plan
15 and the qualified simplified defined benefit plan, the
16 dollar limitation contained in such sections shall be
17 \$200,000. The Secretary shall adjust the \$200,000
18 amount contained in the preceding sentence at the
19 same time and in the same manner as the adjust-
20 ment under section 401(a)(17)(B).

21 “(2) MODIFICATION OF FUNDING RULES.—

22 “(A) INCREASE IN FULL FUNDING LIMITA-
23 TION.—The full funding limitation for the
24 qualified simplified defined benefit plan shall be
25 determined under section 412(c)(7)(A) as if

1 such section did not include subclause (I) of
2 clause (i) thereof.

3 “(B) WAIVER OF QUARTERLY CONTRIBU-
4 TION REQUIREMENTS.—Section 412(m) shall
5 not apply to the qualified simplified defined
6 benefit plan.

7 “(3) WAIVER OF CERTAIN DISCRIMINATION
8 RULES.—The requirements of section 401(k)(3)
9 shall be treated as satisfied with respect to any cash
10 or deferred arrangement maintained by the employer
11 during such year and the requirements of section
12 401(m) shall be treated as satisfied with respect to
13 any plan maintained by the employer during such
14 year.

15 “(4) COMBINED LIMIT WAIVED.—The require-
16 ments of section 415(e) shall be treated as satisfied
17 with respect to the qualified simplified defined con-
18 tribution plan and the qualified simplified defined
19 benefit plan.

20 “(5) OTHER REQUIREMENTS DEEMED SATIS-
21 FIED.—The requirements of the following provisions
22 shall be treated as satisfied with respect to the
23 qualified simplified defined contribution plan and the
24 qualified simplified defined benefit plan:

25 “(A) Section 401(a)(4).

1 “(B) Section 401(a)(26).

2 “(C) Section 401(l).

3 “(D) Subsections (a) and (b) of section
4 410.

5 “(E) Subsection (b) of section 411.

6 “(F) Section 416.

7 “(c) SIMPLIFIED DEFINED CONTRIBUTION PLAN.—

8 “(1) IN GENERAL.—A defined contribution plan
9 is a qualified simplified defined contribution plan
10 if—

11 “(A) all employees of the employer (not ex-
12 cluded pursuant to paragraph (2)) are eligible
13 to participate in such plan,

14 “(B) the employer contribution for each
15 year for each participant in the plan is a uni-
16 form percentage (which is not less than 3 per-
17 cent) of such participant’s compensation (within
18 the meaning of section 414(s)),

19 “(C) such plan provides that each em-
20 ployee covered by the plan has a nonforfeitable
21 right to 100 percent of such employee’s accrued
22 benefit derived from employer contributions,
23 and

24 “(D) the balance to the credit of the em-
25 ployee under such plan—

1 “(i) except as required by section
2 401(a)(9), may not be distributed earlier
3 than separation from service, death, or dis-
4 ability, and

5 “(ii) in the case of any distribution
6 other than by reason of death, such dis-
7 tribution may be made only in the form
8 of—

9 “(I) an annuity for the life of the
10 employee (or a joint and survivor an-
11 nuity as provided in section 417),

12 “(II) a direct trustee-to-trustee
13 transfer as provided in section
14 401(a)(31), or

15 “(III) a distribution to a pension
16 portability clearinghouse (if any) es-
17 tablished to accept distributions.

18 “(2) CERTAIN EXCLUSIONS PERMITTED.—For
19 purposes of paragraph (1), an employee may be ex-
20 cluded until such employee has completed 6 months
21 of service for the employer.

22 “(d) SIMPLIFIED DEFINED BENEFIT PLAN.—

23 “(1) IN GENERAL.—A defined benefit plan is a
24 qualified simplified defined benefit plan if—

1 “(A) all employees of the employer (not ex-
2 cluded pursuant to paragraph (3)) are eligible
3 to participate in such plan, and

4 “(B) the accrued benefit derived from em-
5 ployer contributions for each participant, when
6 expressed as an annual retirement benefit, is
7 equal to the required benefit determined under
8 paragraph (2).

9 “(2) AMOUNT OF REQUIRED BENEFIT.—

10 “(A) IN GENERAL.—The required benefit
11 determined under this paragraph is an amount
12 equal to the product of—

13 “(i) the plan’s qualified accrual rate
14 multiplied by the number of years of serv-
15 ice with the employer, and

16 “(ii) the participant’s average com-
17 pensation for the testing period.

18 “(B) QUALIFIED ACCRUAL RATE.—For
19 purposes of subparagraph (A):

20 “(i) A plan’s qualified accrual rate is
21 the uniform accrual rate set forth in such
22 plan so long as such rate exceeds 0.5 per-
23 cent.

24 “(ii) A plan may provide that the ac-
25 crual rate with respect to so much of the

1 participant's average compensation for the
2 testing period as does not exceed covered
3 compensation (as defined in section
4 401(l)(5)(E)) shall be less than the accrual
5 rate for compensation above covered com-
6 pensation (as so defined) so long as such
7 difference is not greater than 1 percentage
8 point. Nothing in the preceding sentence
9 shall be construed as permitting an accrual
10 rate of less than 0.5 percent.

11 “(C) YEARS OF SERVICE.—For purposes of
12 this paragraph, years of service shall be deter-
13 mined under the rules of paragraphs (4), (5),
14 and (6) of section 411(a).

15 “(D) ANNUAL RETIREMENT BENEFIT.—
16 For purposes of this paragraph, the term ‘an-
17 nual retirement benefit’ means a benefit pay-
18 able annually in the form of a single life annu-
19 ity (with no ancillary benefits) beginning at the
20 normal retirement age under the plan.

21 “(E) TESTING PERIOD.—For purposes of
22 this paragraph—

23 “(i) IN GENERAL.—A participant's
24 testing period shall be the period of years
25 (not less than 3 nor exceeding 5) during

1 which the participant has the greatest ag-
2 gregate compensation from the employer.

3 “(ii) YEAR MUST BE INCLUDED IN
4 YEAR OF SERVICE.—The years taken into
5 account under clause (i) shall be properly
6 adjusted for years not included in a year of
7 service.

8 “(3) EXCLUDED EMPLOYEES.—For purposes of
9 this subsection—

10 “(A) IN GENERAL.—The employer may ex-
11 clude—

12 “(i) employees who have not com-
13 pleted 6 months of service,

14 “(ii) employees who normally work
15 less than 17½ hours per week,

16 “(iii) employees who normally work
17 during not more than 6 months during the
18 year,

19 “(iv) employees who have not attained
20 age 21, and

21 “(v) employees who are included in a
22 unit of employees covered by an agreement
23 which the Secretary of Labor finds to be a
24 collective bargaining agreement between
25 employee representatives and the employer.

1 “(B) EMPLOYEES COVERED BY EXISTING
2 DEFINED BENEFIT PLAN.—The employer may
3 exclude employees who are covered under an-
4 other defined benefit plan maintained by the
5 employer if—

6 “(i) such plan was in existence on the
7 date of the enactment of this section, and

8 “(ii) such plan meets the applicable
9 requirements of this part without regard to
10 this section.

11 The employer may exclude employees under the
12 preceding sentence only if all employees de-
13 scribed in the preceding sentence are so ex-
14 cluded.

15 “(C) SPECIAL RULE.—If accruals under
16 any defined benefit plan referred to in subpara-
17 graph (B) cease and the employees covered by
18 such defined benefit plan are covered by an-
19 other plan which would otherwise qualify under
20 this subsection, such other plan shall not be
21 treated as meeting the requirements of this sub-
22 section unless, in determining the annual retire-
23 ment benefit of each such employee under the
24 plan referred to in subparagraph (B), such em-
25 ployee’s average compensation for the testing

1 period (determined by treating such plans as 1
2 plan) is used.

3 “(e) SPECIAL RULES.—

4 “(1) AGGREGATION RULES.—All employees
5 treated as employed by a single employer under sub-
6 sections (a) and (b) of section 414 shall be so treat-
7 ed for purposes of this section.

8 “(2) INTEGRATION WITH SOCIAL SECURITY NOT
9 COMMITTED.—Except as provided in subsection
10 (d)(2)(B), a plan shall not be treated as meeting the
11 requirements of subsection (c) or (d) unless such
12 plan meets such requirements without taking into
13 account contributions or benefits under chapter 2
14 (relating to tax on self-employment income), chapter
15 21 (relating to Federal Insurance Contribution Act),
16 title II of the Social Security Act, or any other Fed-
17 eral or State law.”

18 (b) CLERICAL AMENDMENT.—The table of sections
19 for subpart B of part I of subchapter B of chapter 1 of
20 such Code is amended by adding at the end the following
21 new item:

“Sec. 417A. Simplified method for complying with pension re-
quirements.”

22 **SEC. 2. STUDY.**

23 (a) GENERAL RULE.—The Secretary of Labor and
24 the Secretary of the Treasury shall conduct a joint study

1 on the feasibility of establishing a pension portability
2 clearinghouse to accept rollovers from tax-qualified pen-
3 sion plans as well as to receive tax deductible contributions
4 from employers not maintaining qualified pension plans.
5 Such study shall also determine the feasibility of having
6 participant-directed accounts with various investment op-
7 tions with varying degrees of risk.

8 (b) REPORT.—Not later than the date 1 year after
9 the date of the enactment of this Act, the Secretaries re-
10 ferred to in subsection (a) shall submit a report to the
11 Congress on the study conducted under subsection (a), to-
12 gether with such recommendations as such Secretaries
13 may deem advisable.

○