RECORD OF SOCIETY OF ACTUARIES
1982 VOL. 8 NO. 2

EFFECTS OF THE ECONOMIC RECOVERY TAX ACT OF 1981

Moderator: GARY A. PINES. Panelists: JEFF R. HART, CLIFFORD R. JONES**, JAMES B. TERRY*

1. Background - the provisions of ERTA
    a. Consulting viewpoint
    b. Insurance company viewpoint
    c. Non-actuarial viewpoint
    As relates to the issues of employee deductible contributions to an IRA, individual stock options, TRASOPs, and constructive receipt.

2. Experience - eight months later
    a. What needs were addressed by ERTA?
    b. What have companies and individuals been doing to take advantage of ERTA incentives?
        1) General experience
        2) Survey information
        3) Specific examples
    c. What types of IRA investment vehicles are being used?

MR. GARY A. PINES: As I see it, ERTA is the government saying to us, "Go ahead and save." Due to disincentives, savings had diminished greatly during the 1970's. In August of 1981, ERTA was passed providing various incentives to save. These incentives to save included tax deductible voluntary employee contributions, payroll based tax credits, and stock ownership plans. In October of 1981, the IRS liberalized their definition of voluntary employee contributions. And, in November of 1981, they sanctioned the famous 401(k) Salary Reduction plan, thus providing additional incentives to save.

The purpose of this meeting is to discuss the past, present and future effects of the Economic Recovery Tax Act of 1981. Our Magic Kingdom panel for the discussion includes Mr. James B. Terry, F.S.A., actuary from the Tomorrow Land of Actuarial Science; Mr. Clifford R. Jones, tax accountant from the Adventure Land of tax law complexities; Mr. Jeff R. Hart, lobbyist from Frontier Land of Congress; and Mr. John M. Simmonds, recorder from Liberty Square.

We will begin in the Tomorrow Land of Actuarial Science with Mr. Terry. Jim received his training for Tomorrow Land from the University of Michigan. He has been a benefit consultant for over ten years and is currently Vice President of Meidinger, Inc. working out of their Boston office.

*Mr. Hart, not a member of the Society, is Executive Director for the Association of Private Pension and Welfare Plans, Inc.
**Mr. Jones, not a member of the Society, is a Partner with Ernst and Whinney.

MR. JAMES B. TERRY: To begin, let's talk about IRA's. IRA's are available now for all workers effective January 1, 1982. The amount that can be put into an IRA or in deductible contributions in an employer sponsored plan is the greater of $2,000 per year or 100% of compensation. IRA's are available mostly for retirement savings; therefore, there are penalties for early withdrawal prior to age 59-1/2 of 10% of the accumulated amount that is being withdrawn. Contributions cannot be made to an IRA past age 70-1/2. IRA contributions must be made from voluntary money. One of the restrictions, therefore, is that in a thrift plan contributions which are matched in some portion by the employer are not considered voluntary. A distribution from an IRA is considered ordinary income. Therefore, for tax purposes ten year averaging is not available.

What kinds of investment institutions might be utilized in establishing an IRA? Essentially, there are four kinds. There are banks and thrift institutions, insurance companies, mutual funds and self directed investments througha stock broker. Each of these has various advantages and disadvantages. Banks and thrift institutions provide fixed income type investments. They guarantee the principal with usually a fixed or a variable interest rate. The vehicles used are Certificates of Deposit and savings accounts. Presently, most banking and thrift institutions are not offering pooled accounts to individuals.

Insurance companies have the same type of investments for individuals as banks. They offer fixed annuity contracts with interest guarantees and guarantees of principal. Pooled accounts of the insurance company are also available.

Mutual funds have a greater variety of investment types available; the most popular being money market funds. One of the advantages of the mutual fund family is the great flexibility in switching from one fund to another. Most of the mutual fund family provides for switching at any time with little or no penalty for making the switch. There are some restrictions, however, in the number of times that switches can be made in a period of time, and if more switches occur, an administrative charge is usually assessed. Contrasted to the first two types of investment methods, the mutual provides no guarantee of the investment return or of the principal.

The fourth area, the brokerage firm, provides an individual with a brokerage investment manager and a self-directed type of investment choice. He may choose to buy shares or bonds. One investment that has had a lot of discussion recently is zero coupon bonds. Also, brokerage firms have captive mutual funds available similar to the mutual funds industry. One investment not allowed in IRA's are collectibles such as stamps, coins, metals, etc.

What kind of marketing of IRA's has been done? I am going to split marketing into two time periods - the period prior to January 1, 1982 and the period after January 1, 1982. Most of the marketing prior to January 1, 1982 was to corporate sponsors to entice them to set up a plan for their employees. Therefore, we found that many organizations had a great deal of marketing material, but programs had not been put into effect. After January 1, 1982, the banks, financial institutions and insurance companies were the most active. Most of the advertising has been in direct communication to current customers. Most likely, in your checking or savings account statement, you would find a brochure asking you to send for additional information about IRA's.

Mutual funds have become much more active. Their main thrust of advertising, that I have seen, has been in the Wall Street Journal. All of these institutions have been advertising in financially related publications. Additionally, many shareholders have received stuffers in their monthly reports. Brokerage firms have been mailing directly to their customers.

Recently, I received a postcard showing pictures of the Boston area and talking about Paul Revere, etc. It is an attractive piece stressing what people should be concerned about in Boston, pointing out the exciting facts about their corporate IRA and stating that a handsome keepsake should reach you shortly. I have not received my gift yet, but I am certainly looking foward to seeing it. I was a bit surprised that the postcard talked about a corporate IRA, since others received this card in the office. The sponsor must have a list of professionals. This type of information is now common. I have not seen much marketing by insurance companies. This marketing has been directed toward the individual.

Next, I would like to focus on the response to date. It is a little difficult to say what the response has been as there have been no scientific surveys on the subject, but let me just give you some of the results that I have seen. There was one survey of 1,900 people who were asked what kind of investment they would use if they were to set up an IRA. Fifty-five percent stated that they would place it with a bank; fifteen percent with a thrift organization; fifteen percent with an insurance company; five percent with a mutual fund; ten percent with a brokerage firm or other. One of the results of this survey was that ten percent to twelve percent of the people misunderstood the operation of an IRA. They had misconceptions about what establishing an IRA entailed. Another response was that one business stated that if he set up an IRA, he would be <u>required</u> to contribute $2,000 per individual every year. Obviously, this shows that more basic education is needed regarding IRA's.

Of this group of 1,900 people, seventeen percent had already set up IRA's. The Investment Company Institute, the public relations arm of the mutual fund industry, has stated that 300,000 new IRA accounts have been established in mutual funds. Most of this money has been invested in money market funds; presently, $3.1 billion in IRA accounts. The institutions expect $6 billion per year to be contributed to mutual fund IRA's. Currently, IRA's represent five percent of mutual fund total dollars. Their goal is that IRA's will represent one-third of mutual fund dollars.

The Profit Sharing Council held a two day seminar with 100 participants. At the end of the seminar, each participant filled out a questionnaire. They were asked what action their corporations had planned regarding IRA's. Two percent of the group stated that they would do nothing. Twenty-five percent of the group answered that they were going to provide information to their employees, therefore, communcating that IRA's are available and that they would probably sponsor an IRA through payroll deduction. The word sponsor may not be correct--Advisory Opinion 81-80A from the Department of Labor stated that corporations may have an IRA available through payroll deductions and not require it to qualify under ERISA, avoiding reporting and disclosure requirements. Thirty-six percent of the participants stated that they would add deductible contributions to an existing plan, and ten percent of the group stated that they would set up an additional plan for IRA's or use a combination of the prior responses. There have been surveys sponsored by consulting firms showing similar responses from corporate employers.

I have conducted a survey polling a number of actuaries. I have decided that actuaries would be more likely to set up an IRA than the general public for a number of reasons. My survey is biased geographically. The people I contacted were all located in New England. I have asked a few people here at the meeting but not enough to unbias my survey. I have forty-six valid responses. Of this group, thirteen people have already established IRA's. Six people have established them with a mutual fund, four with a bank, one with a stock broker, one with an insurance company through a payroll deduction plan and one person did not specify his investment vehicle. Five people stated that they will set up the IRA in 1982 during their tax extension period. Fifteen people stated that they will not set up an IRA. Their intention at the current time is that an IRA is not of interest to them. The responses ranged from an individual who may purchase a home within the next year and, therefore, needed the money for a downpayment to others who did not want to tie their money up to age 59-1/2 as they felt they could do just as well through investments, avoiding the restrictions of an IRA. Right now, I would like to have a show of hands from the audience. Based on my count, slightly more than half of the people here will or have already set up an IRA, but a good portion of the audience will not.

I would now like to discuss Section 401(k) plans. Section 401(k) is a proposed regulation of the Internal Revenue Code issued on November 10, 1981. The plans covered under 401(k) are referred to as cash deferred plans, salary reduction plans or cash-option plans. Essentially, the plan allows employees to make contributions or have them made on a salary reduction basis; therefore, the contribution is not taxable income to the employee.

These plans do not have the $2,000 restriction or 10% penalty for withdrawing money prior to age 59-1/2. However, funds cannot be withdrawn prior to age 59-1/2 if you are in active service with the employer unless you become disabled or suffer hardship. A salary reduction plan may be used in addition to an IRA. The higher paid employees might have enough discretionary income that they can utilize both an IRA and a salary reduction plan.

One of the challenges of a salary reduction plan is in the communication of the plan to employees. It is perhaps difficult to explain to employees that instead of having $100 in salary, they now have $94 of salary and a $6 contribution to a salary reduction program. One of the innovative ways this can be done is to describe the $6 of income as flexible dollars and still a part of his compensation.

Participants of a salary reduction plan may have their Social Security taxes lowered. Obviously, the employer's Social Security taxes will also be lowered. This might be taken on face as being an advantage to the employee. Offsetting this advantage is the fact that the participant's Social Security benefits may be reduced. If we were to do a Social Security calculation, I think it would show that in most cases, if not all, the additional investment income on money saved by deferring the taxes will be greater than the value of the Social Security benefits that are lost. The restriction on withdrawals can be a problem. The proposed regulations have very restrictive hardship language, much more restrictive than any other qualified plan withdrawal regulations. However, there seems to be a softening of the IRS on this point. For this reason, a number of corporate entities are deferring installation of a 401(k) plan.

There are two eligibility tests, one of which must be satisfied to ensure qualification of the plan. For these two tests, employees eligible for the plan are broken into two groups: the first group being the highest 1/3 compensated; the remaining 2/3 of the employees is the second group. In the first test the average deferral percentage for the higher paid group must not be greater than 1-1/2 times the deferral percentage of the lower paid group. In the second test the average deferral percentage for the first group must not be more than 2-1/2 times the deferral percentage of the second group with a maximum difference of 3%. As an example, if the lower 2/3 deferral is 3% of compensation, the first test would allow the highest 1/3 to defer 150% or 4-1/2% of compensation. The second test would allow 2-1/2 times the 3% with a maximum differential of 3%; or 6% of compensation. This test must be met every year; therefore, it is important that the plan not be established to use the highest percentage possible in one year, as you may have a different percentage level the next year.

What would happen if the tests were not met? Would some of the compensation deferred by the highest paid not be utilized on a tax deferred basis? It could be utilized as regular income and would be construed as a voluntary contribution.

MR. PINES: From Tomorrow Land of the actuarial science, we now go to the Adventure Land of the tax accountant with Mr. Clifford R. Jones. Cliff is a tax accountant, a tax partner of Ernst & Whinney and has been in business for over fourteen years.

MR. CLIFFORD R. JONES: I would like to continue our discussion of 401(k) plans. One question that comes to mind is, "Why is there the current interest in 401(k) plans?" Obviously, we have had salary reduction plans or cash deferred plans for years. When they originally came out, they were modestly popular. However, they were not totally sanctioned by law. The Internal Revenue Service in the early 70's published a proposed regulation stating that contributions to the plans would still be taxed as ordinary income. This effectively did away with the plans. It was not until the Revenue Act of 1978 that corporations could have a salary reduction or a cash deferred type plan.

Now, we have some transitional rules. There are some rules which may be applicable only to new plans. We had to wait for additional regulations to be published, as the statute was very general, leaving a lot of unanswered questions in this particular area. The proposed regulations were released in November, 1981 and gave a little more guidance. The regulations appear to be generally very favorable.

There are many unanswered questions which came out of the regulations. One question which has been asked is, "What type of plans are covered by 401(k)?" There are profit sharing plans and stock bonus plans. One of the questions which comes up is whether money purchase plans are covered. We do not know the answers, and there seems to be a couple of concerns. One concern is that money purchase plans might be covered, and there is another concern that money purchase plans might not be covered. Another question which has come up in this area is whether salary reduction plans are really covered by the law. The law does not specifically address salary reduction plans, although they are surely intended in the law. Why is there a concern regarding money purchase and salary reduction plans? If the discrimination tests are applied to plans already in existence, these plans may not qualify. We are a bit concerned now because if these regulations are retroactive, some plans may not meet the discrimination test. Also, many small and medium sized companies who have money purchase plans would like to have salary reduction plans. We would ultimately like to have money purchase pension plans covered under 401(k) and to have the discrimination rules be prospective.

One of the areas of concern is the definition of hardship. There seems to be some liberalization in the IRS' thinking. The definition of hardship in the proposed regulations is more stringent than we ever thought the definition would be. The comments at a meeting last week on the proposed regulations indicated that the corporate community would support either the old hardship rules or having an employee certify that he has a hardship and that these funds will be used to meet his financial need. There were some comments regarding the discrimination tests. These tests are rather stringent in certain circumstances. Some companies feel, however, that the discrimination tests should be eased. Some lobbyists may move to have the law ease these two participation tests.

MR. GENE ESCOT: How stringent is the hardship definition? Can I use a salary reduction plan to accumulate funds for my children's education?

MR. JONES: Generally this would be difficult to do under any definition of hardship. The new proposed regulations specifically state that one must specify the amount of the need, its purpose and only withdraw enough to meet that particular need. One must also exhaust all other sources. This interpretation puts a tremendous burden on the plan sponsor in interpreting the hardship rules. I have read a couple of commentaries, however, stating that an educational need would be deemed as a true financial need, giving the flexibility of the old hardship rules.

Some of the people from the IRS in a hearing last Tuesday indicated they were moving to liberalize hardship regulations.

So we are faced with a rather strict definition of hardship, and it may cause some corporations problems in trying to determine whether or not it is met. There are some issues that came out in the hearings. One issue is the thirty day rule. Employers are required to make contributions to qualified profit sharing or stock bonus plans by the time they file their tax returns including extensions. There is a rule that the amounts to be contributed on behalf of the employee, whether it be at the employee's election as additional compensation or through salary reduction, must be contributed within thirty days after the end of the plan year. There does not seem to be any logical reason for this date to be any different from any other contribution to the particular plan.

We are seeing very little activity in this area. Many companies are studying the law closely as they had sophisticated comments at the hearings. I think we are in a holding pattern. A few companies are setting up these salary reduction plans. Some companies are waiting to see the final regulations.

There are items that were not even touched by the proposed regulations. For example, how does integration work with a salary reduction plan? I have seen examples where you could set up a plan and only have your third highest compensated employees make deferrals. The plan would still qualify depending on its integration with Social Security.

The proposed regulations mention separate accountability. How does that work in practice? In normal profit sharing or stock bonus plans, you can take the money after a certain period of time; the Service said two years. Here it has to stay until death, disability, etc. You have different treatments, so you have to account for it differently. Investment gains and losses, withdrawals, and so forth have to be properly allocated between qualified profit sharing normal contributions and salary reduction 401(k) contributions. Commentators believe that any additional administrative cost will probably be offset by the savings on Social Security and unemployment taxes.

In summarizing 401(k), we have some guidance, generally favorable, in the proposed regulations. The proposed regulations, however, leave many unanswered questions. There are companies who believe they know what the answers will be; there are other companies who are waiting. Informally, the IRS has addressed a number of the areas. They have informally indicated that money purchase pension plans will not be covered. There is an indication that the hardship area may be loosening. It is very exciting when you can make contributions that normally go to a stock bonus plan or other type of profit sharing plan and have them go in as pre-tax dollars instead of after-tax dollars. Keep in mind that if you desire to qualify for a lump sum distribution, these amounts will have the best benefits of both worlds.

Let's move on to the area of IRA's. The comments, "I do not want to tie up my money till 59-1/2; I do not want to put my money away and not be able to get to it," may not apply to IRA plans. Depending upon the rate of return, pre-tax dollars put into the fund, earning on a tax free basis, may be withdrawn in five to ten years, pay the tax and 10% penalty and still be ahead. I think this adds an interesting aspect to the use of IRA's.

Let me touch just a little bit on the tax implications. We do not have a lot of guidance in the area of IRA's regarding employer contributions to the plan. Even when contributions are not matched dollar for dollar, if they are matched, they are classified as mandatory contributions. There is an opinion that IRA contributions are deductible contributions regardless of matched contributions. There are a number of commentators who currently feel that even if a maximum 10% contribution is deemed mandatory under your current plan, you could still make a $2,000 contribution (voluntary contribution) to your employer's IRA plan. That would obviously be within the spirit of the law and add a unique feature to the plan.

What kind of accounting requirements are there? There are no specific accounting rules for the corporate based IRA's, but because they are subject to different rules relative to withdrawal, etc., and because they must allocate investment gains, separate accountings will be needed. If a company sponsors a profit sharing or stock bonus plan, a salary reduction plan and a corporate based IRA, the accounting becomes very complex. With the use of computers, however, this would not be as onerous a task, but it is a problem which concerns companies.

Many large clients are waiting for guidance in this area. They are concerned about the coverage rules. If an IRA is set up, participants may be drawn away from other plans. If an IRA is not offered, employees may decide to establish IRA's on their own, and coverage under the corporate plans will fall. May corporate IRA's be integrated with Social Security? What are the reporting requirements?

MR. PINES: Mr. Jeff R. Hart is the Executive Director of the Association of Private Pension and Welfare Plans (APPWP), which has the specific purpose of promoting the survival and growth of the private benefit sector. Jeff, prior to coming to the APPWP, was with the Pension Benefit Guarantee Corporation.

MR. JEFF R. HART: We have talked about Tomorrow Land and Adventure Land, and I am from Frontier Land as the lobbyist, a word that is generally misunderstood.

I would like to talk about the political environment that led to ERTA, and what the political environment is now. As a lobbyist, I as an individual act as a facilitator for hundreds of members of the APPWP. The organization is comprised of approximately 600 companies from across the Nation. We have plan sponsors, large and small, as well as representatives from every major element of the professional services associated with the employee benefits industry. Of the 600 members, we have nearly eighty F.S.A.'s that are active in the organization.

The concept of mandatory deductibility has been around for years as salary reduction and money purchase plans, but prior to ERTA, they did not have personal incentives for savings. The retirement income concept was not embraced by the Congress or by any administration. The concept of liberalizing IRA's and Keogh's was originated in an informal coalition, in Washington, called the Employee Retirement Savings Deduction Coalition. In August, 1980, three groups, the American Council of Life Insurance, the ERISA Industry Committee and the APPWP started to lay the strategies for these issues. The initial strategy, once Congress started to meet in open session, was to get as many bills introduced as possible by Democrats and Republicans in both chambers. We knew that there would be very little probability of any single bill unilaterally passing. We felt that the more bills introduced with bi-partisan co-sponsorships, the more pressure would be on the Ways and Means, Senate Finance Committees and the Administration to adopt tax legislation in its final hours. By the time provisions were being deliberated, twenty-three bills had been introduced in Congress.

At the same time, the Administration announced its guidelines for a tax act.

The first public view of the coalition's work was in public hearings in March chaired by Senator Chaffee, Chairman of the Senate sub-Committee of Savings, Pensions and Investments of the Senate Finance Committee. He had introduced, along with Henson Moore, legislation in the House that called for qualified voluntary employee contributions (known as QVEC) to be deductible; making IRA's universally available. As the hearings continued, members of our coalition educated various members of the Committee about voluntary versus mandatory contributions. As I appear before audiences that are primarily actuaries, often the comment is made, "We hope the actuarial profession never becomes politically active." There is, however, a very responsible role for the actuary. In fact, during the above events, they played the role very well as technical support. Many of the members of the Ways and Means and Senate Finance Committees seemed to understand the importance of retirement income incentives and how they fit into a larger economic picture nationally. On the eve of the passage of the bill, the Committee felt that, for employees covered by qualified plans, the maximum allowable contribution to an IRA should only be $750. However, for those people not covered by a qualified plan, they felt the existing $1,500 ceiling could not be enriched. A lot of the provisions came right down to the wire. The lobbying shifted out of the technical arena to the floor of Congress. There were literally hundreds of lobbyists in the lobby of the Congress trying to corner as many Senators and Congressmen as possible as the Congress was moving through ERTA. In the break immediately preceding the open session that addressed retirement income incentives, I was assigned to the Senate Finance Committee, and I stopped Senator Chaffee as he was coming out of the hearing room. At the same time, an individual from the ERISA Industry Committee cornered Senator Duerenberger (Minnesota). Within a few moments we tried to impress upon them how important it was to hang tough on liberalizing IRA's, Keogh's and particularly voluntary and mandatory deductibility for employee contributions. Senator Chaffee said that he and Senator Duerenberger would like to play devil's advocate and ask us the questions they felt they would have to field from the minority side of the Committee. One example of their questions was: "Aren't these issues merely enriching the highly compensated, or are we into discriminatory patterns that cannot be avoided." They felt they should get the approval through Bob Dole (Senator from Nebraska) as the Senate Finance Committee Chairman to cross the Administration on this issue. The Administration approved but did not want parity in the IRA ceilings between somebody covered by a qualified plan and somebody not covered and did not want the IRA maximum to be above $1,500.

Another area where the attorneys and the actuaries are needed is in the technical drafting of the provisions. The expertise would be provided to the staff level of the Joint Task Committee of the House Ways and Means and the Senate Finance Committees.

There is one feature of the current Administration that is different from some of the others. That is that the President's Task Force on regulatory relief and Vice President Bush are personally involved in ERISA and helped in the implementation of ERTA. Vice President Bush's deregulatory panel moved to relieve some of the regulatory burden upon business created by ERISA. This particular group is charged with coordinating entry of data on a technical level to the Committee. We spent hundreds of hours with Bush's staff on the ERISA regulatory burden. The game plan was once the White House staff was comfortable with the shopping list of regulations to be changed, they would negotiate with the agencies responsible. Once agreement was reached, Vice President Bush would announce the outcome. Then tracking the expeditious processing of those changes would fall under the department of the Office of Management and Budget (OMB). An announcement in February was geared primarily to ERISA changes to help small business. This was a pretty hefty shopping list of changes.

It is important to note that the negotiations the White House undertook with the Treasury and the Internal Revenue Service (IRS) illustrated clearly that the Treasury and the IRS had been working with far too much autonomy over in the regulatory area, virtually independent of Administration policy. Watch the developments in this area over the next ninety days. There has been a written agreement between OMB and the Treasury stating that OMB would not screen regulatory proposals, letter rulings or activities of the Treasury or IRS. This written agreement has been approved for many years automatically. This year the renewal agreement was rejected by OMB. The Administration does not feel that the policymakers of the Treasury and IRS have been responsive enough to Administration policy.

We now have the avenue we need to make the White House aware of the importance of some of the regulatory decisions from ERTA at both the Treasury and the Department of Labor. An example: There have been several questions about the sponsorship of an IRA. If an employer endorses an IRA, is this arrangement subject to Title I regulations of ERISA? Can a financial institution sponsor an IRA for its employees in-house? We pushed for very expeditious public announcements regarding these questions which were, in fact, generally favorable to industry.

Unfortunately, the Summer of 1981 that brought ERTA I think is gone forever. A lot of businessmen who were economic and fiscal conservatives said, "Give us a little bit of incentive, a little bit of freedom, extend that argument into supply side economics and this Country will take off." That could very well prove to be true at some point. However, economic realities and economic time horizons are always much longer than the political time horizon. In the House side, a political time horizon is about nine months. A Congressman has a two year term as a representative; he has fund raising activities to retire his campaign debts; he has about ninety days to get the lay of the land; and then he starts his re-election campaign machinery rolling. After one year, he is back on the campaign trail. Supply side theories cannot work across that time horizon.

Senators have six year terms, but they are staggered, so the two year cycle affects the Senate somewhat. This year ten of the twenty Senators on the Senate Finance Committee are up for re-election.

One development to watch is the struggle over ERTA between OMB and the Treasury. Retirement income incentives for personal savings contained in ERTA may never be repealed since, for political reasons, Congress will not cross over that threshold. This environment is needed as Congress tries to match the realities of the economy to the retirement needs.

MR. SAM HILL: I think it is a commentary on the prevalence of two income families that our panel has not mentioned that an individual married to a non-working spouse may contribute an additional $250 to an IRA. May the interest on a loan taken out to make an IRA contribution be tax deductible?

MR. JONES: That is a good question. It would appear that interest on the loan would be deductible. I would suspect, however, that there might be compensation. I have not seen this question directly addressed.

MR. GENE A. GOLDMAN: An enrolled actuary from Aetna is running for Congress as a Democrat. What are his chances, if elected, of being appointed to the Ways and Means Committee, and would he have any influence over pension policies?

MR. HART: Anyone appointed to the Ways and Means Committee will have an influence in the employee benefits area, but I would doubt seriously that a first term Congressperson would be appointed to the Ways and Means Committee.

MR. HARPER L. GARRETT, JR.: I have attended several employer group meetings recently, and an interesting thought process has gone on in the area of employee benefits by many employers. When ERTA was first passed, employers had a choice of installing salary reduction or IRA plans. Initial reaction by many employers was, "I have just gotten the administration of my profit sharing or thrift plan in place. I do not want to redo the administration of these plans to provide for voluntary contributions." They were also concerned about some of the issues mentioned earlier. Several employers thought that if they did not have their IRA administration set to handle payroll deductions by January 1, 1982, they might as well wait another year. This, of course, is not true, and many have installed them since January 1. Many are much more willing now to consider qualified voluntary contributions. I heard from a consultant who said several IRA plans that were well communicated to employees had about 35% to 40% participation. I thought participation might have been a little higher.