

108TH CONGRESS  
1ST SESSION

# H. R. 2458

To amend the Internal Revenue Code of 1986 to exclude from gross income a percentage of lifetime annuity payments, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

JUNE 12, 2003

Mr. POMEROY (for himself, Mr. ISAKSON, Mr. ENGLISH, and Mr. ANDREWS) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to exclude from gross income a percentage of lifetime annuity payments, and for other purposes.

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. SHORT TITLE.**

4       This Act may be cited as the “Secure Annuity Income  
5       for Life Act of 2003”.

6       **SEC. 2. EXCLUSION OF PERCENTAGE OF LIFETIME ANNU-**  
7       **ITY PAYMENTS.**

8       (a) **QUALIFIED PLANS.**—Subsection (e) of section  
9       402 of the Internal Revenue Code of 1986 (relating to

1 exempt trusts) is amended by adding at the end the fol-  
2 lowing:

3 “(7) EXCLUSION OF PERCENTAGE OF LIFETIME  
4 ANNUITY PAYMENTS.—

5 “(A) IN GENERAL.—In the case of a life-  
6 time annuity payment from a qualified trust  
7 (within the meaning of subsection (c)(8)(A)) to  
8 a qualified distributee, gross income shall not  
9 include 15 percent of the amount otherwise in-  
10 cludible in gross income (determined without re-  
11 gard to this paragraph).

12 “(B) DEFINITIONS AND SPECIAL RULES.—  
13 For purposes of this paragraph—

14 “(i) LIFETIME ANNUITY PAYMENT.—

15 “(I) IN GENERAL.—The term  
16 ‘lifetime annuity payment’ means a  
17 distribution which is a part of a series  
18 of substantially equal periodic pay-  
19 ments (made not less frequently than  
20 annually) made over the life of the  
21 qualified distributee or the joint lives  
22 of the qualified distributee and the  
23 qualified distributee’s designated ben-  
24 eficiary.

1                   “(II)       EXCEPTIONS.—Annuity  
2                   payments shall not fail to be treated  
3                   as part of a series of substantially  
4                   equal periodic payments because the  
5                   amount of the periodic payments may  
6                   vary in accordance with investment  
7                   experience, reallocations among in-  
8                   vestment options, actuarial gains or  
9                   losses, cost of living indices, or similar  
10                  fluctuating criteria. The availability of  
11                  a commutation benefit, a minimum  
12                  period of payments certain, or a min-  
13                  imum amount to be paid in any event  
14                  shall not affect the treatment of a dis-  
15                  tribution as a lifetime annuity pay-  
16                  ment. In the case of lifetime annuity  
17                  payments being made to a qualified  
18                  trust, payments by the qualified trust  
19                  to a qualified distributee of the entire  
20                  amount received by the qualified trust  
21                  with respect to the qualified dis-  
22                  tributee shall constitute lifetime annu-  
23                  ity payments.

24                  “(ii) QUALIFIED DISTRIBUTE.—The  
25                  term ‘qualified distributee’ means the em-

1 employee, the surviving spouse of the em-  
2 ployee, and an alternate payee who is the  
3 spouse or former spouse of the employee.

4 “(iii) LIMITATION.—With respect to  
5 any qualified distributee, subparagraph (A)  
6 shall not apply to any lifetime annuity pay-  
7 ment to the extent that such payments,  
8 when added to all previous payments under  
9 such annuity to such qualified distributee  
10 during the taxable year, exceed 50 percent  
11 of the applicable amount for such year  
12 under section 415(c)(1)(A). For purposes  
13 of this clause, all lifetime annuity pay-  
14 ments received by a qualified distributee  
15 shall be taken into account to the extent  
16 that such payments are subject to this  
17 paragraph or to rules similar to the rules  
18 of this paragraph.

19 “(C) RECAPTURE TAX.—

20 “(i) IN GENERAL.—If—

21 “(I) a portion of a lifetime annu-  
22 ity payment is not includible in gross  
23 income by reason of subparagraph  
24 (A), and

1                   “(II) the series of payments of  
2                   which such payment is a part is sub-  
3                   sequently modified (other than by rea-  
4                   son of death or disability) so that  
5                   some or all future payments are not  
6                   lifetime annuity payments,  
7                   the qualified distributee’s gross income for  
8                   the first taxable year in which such modi-  
9                   fication occurs shall be increased by an  
10                  amount, determined under rules prescribed  
11                  by the Secretary, equal to the amount  
12                  which (but for subparagraph (A)) would  
13                  have been includible in the qualified  
14                  distributee’s gross income if the modifica-  
15                  tion had been in effect at all times, plus in-  
16                  terest for the deferral period.

17                  “(ii) DEFERRAL PERIOD.—For pur-  
18                  poses of clause (i), the term ‘deferral pe-  
19                  riod’ means the period beginning with the  
20                  taxable year in which (without regard to  
21                  subparagraph (A)) the payment would  
22                  have been includible in gross income and  
23                  ending with the taxable year in which the  
24                  modification described in clause (i)(II) oc-  
25                  curs.”.

1       (b) SECTION 403(a) PLANS.—Paragraph (4) of sec-  
2       tion 403(a) of such Code (relating to qualified annuity  
3       plans) is amended by adding at the end the following new  
4       subparagraph:

5               “(C) EXCLUSION OF PERCENTAGE OF  
6               LIFETIME ANNUITY PAYMENTS.—Rules similar  
7               to the rules of section 402(e)(7) shall apply to  
8               distributions under any annuity contract to  
9               which this subsection applies.”.

10       (c) SECTION 403(b) PLANS.—Section 403(b) of such  
11       Code (relating to purchased annuities) is amended by add-  
12       ing at the end the following new paragraph:

13               “(14) EXCLUSION OF PERCENTAGE OF LIFE-  
14               TIME ANNUITY PAYMENTS.—Rules similar to the  
15               rules of section 402(e)(7) shall apply to distributions  
16               under any annuity contract to which this subsection  
17               applies.”.

18       (d) IRAS.—Section 408(d) of such Code (relating to  
19       tax treatment of distributions) is amended by adding at  
20       the end the following new paragraph:

21               “(8) EXCLUSION OF PERCENTAGE OF LIFETIME  
22               ANNUITY PAYMENTS.—Rules similar to the rules of  
23               section 402(e)(7) shall apply to distributions out of  
24               an individual retirement plan.”.

1       (e) SECTION 457 PLANS.—Section 457(e) of such  
 2 Code (relating to special rules for deferred compensation  
 3 plans) is amended by adding at the end the following new  
 4 paragraph:

5               “(18) EXCLUSION OF PERCENTAGE OF LIFE-  
 6 TIME ANNUITY PAYMENTS.—Rules similar to the  
 7 rules of section 402(e)(7) shall apply to distributions  
 8 from an eligible deferred compensation plan of an el-  
 9 igible employer described in subsection (e)(1)(A).”.

10       (f) EFFECTIVE DATE.—The amendments made by  
 11 this section shall apply to distributions made after Decem-  
 12 ber 31, 2003.

13 **SEC. 3. NOTICE OF EQUIVALENT ANNUITY.**

14       (a) IN GENERAL.—Paragraph (1) of section 402(f)  
 15 of the Internal Revenue Code of 1986 is amended by strik-  
 16 ing “and” at the end of subparagraph (D), by striking  
 17 the period at the end of subparagraph (E) and inserting  
 18 “and”, and by inserting after subparagraph (E) the fol-  
 19 lowing new subparagraph:

20               “(F) in the case of a participant receiving  
 21 a benefit to which section 401(a)(11)(A) does  
 22 not apply, in accordance with rules prescribed  
 23 by the Secretary, of the amount of a lifetime  
 24 annuity payment (as defined in section

1           402(e)(7)(D)) that is the actuarial equivalent of  
2           account balances specified in such rules.”.

3           (b) RULES AND MODEL NOTICE.—The Secretary of  
4 the Treasury shall, within 180 days of the date of enact-  
5 ment of this Act, issue rules and a model notice provision  
6 under section 402(f)(1)(F) of the Internal Revenue Code  
7 of 1986.

8           (c) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to distributions made after the  
10 date that is one year after the date of enactment of this  
11 Act.

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