The Pension Digest

Published Since 1984 Collin W. Fritz and Associates, Inc., *"The Pension Specialists"* December, 1993

IRAs Celebrate 20th Anniversary

The coming year will mark the 20th anniversary of the Employee Retirement Income Security Act (ERISA) legislation that created the Individual Retirement Account (IRA). This landmark legislation gave millions of Americans who were not covered by employer plans a tax incentive to save for their own retirement.

Despite subsequent tax law changes that have reduced the level of deductible contribution participation for American workers, the IRA remains an important retirement option for millions. It also represents a significant deposit base for financial institutions, insurance companies and securities firms.

CWF Celebrates, Too

In recognition of this important milestone, and also in celebration of the 10th anniversary of Collin W. Fritz and Associates' service to the retirement plan industry, we will be offering special customer appreciation programs throughout the coming year. Your January *Pension Digest* will have a complete calendar of special service and product opportunities to assist you in serving your retirement plan customers, whether individuals or businesses. PD

10th
Collin W. Fritz and Associates, Ltd.
10 Years of Service

Definition of 'Deposit' May be Amended to Provide Additional IRA, Keogh Exemptive Relief

... certain IRA, Keogh securities investments would be allowed in "free or reduced-cost" banking services arrangements

Under a new proposed amendment to Prohibited Transaction Exemption 93-33, IRA and Keogh plans with investments in such securities as certain eligible stocks and mutual funds would become eligible for bank programs that provide free or reduced-cost services to accountholders. This amendment, which is currently only a proposal by the Department of Labor (DOL), would, if approved, be effective retroactively to May 11, 1993.

In the March *Pension Digest* we discussed Prohibited Transaction Exemption 93-33 (formerly 93-2) in great detail. PTE 93-33 permits financial institutions to offer reduced or no-cost services to sponsors of IRAs, or Keogh plans for self-employed individuals. This exempts such transactions from the prohibited transaction provisions of ERISA, and allows the use of

***Definition** – Continued on page 3*

IRA Amendment Needed for 1993 Law Changes?

Because of changes brought about by the Budget Act of 1993, there may be a brief, but necessary, IRA amendment in your customers' future. These tax law changes take effect Jan. 1, 1994.

The Substance of These Changes

1. The first relates to the interrelationship between taxable Social Security benefits and an individual's adjusted gross income. The relationship is a factor in determining how much of an IRA contribution is deductible.

Under the rules, for the necessary calculation the accountholder must include in their adjusted gross income the lesser of:

85% of their Social Security benefit, or

85% of their excess provisional income that is above the applicable threshold level.

Prior to the 1993 law change, these amounts were both 50%. (As an indication of how important the IRS considers this change, it devoted 4-5 pages to this subject in its "Publication 590, Individual Retirement Arrangements".)

***IRA Amendment** – Continued on page 3*

Spouse Fails in Attempt to Five-Year-Average pre-59-1/2 Lump-Sum Death Distribution

The right to five-year-average a lump-sum distribution from a qualified pension plan is very valuable. The option allows the plan participant or their beneficiary to receive a lump-sum distribution and the benefits of immediate access to plan assets with a more favorable tax impact than simply including the lump-sum distribution in that year's taxable income. The usual result of five-year-averaging is taxation at a lower marginal tax rate. The example we are about to discuss illustrates just how desirable this option is, and how its availability has changed over time.

The Concept of Five-Year-Averaging

Five-year-averaging works this way:

• the lump-sum distribution is divided by five;

• a standard additional amount required by the calculation formula is added;

• the tax for this sum is determined according to a tax table. (Depending on the distribution amount, it is most likely that the marginal tax rate after dividing by five will be less than the rate for the total distribution.);

• the tax liability amount is then multiplied by five, to arrive at the total tax liability for the entire lump-sum distribution;

• this amount is due in the year of distribution. But it is NOT added to one's income – if any – in that year, which is taxed on its own merits.

The Legislative History of Lump-Sum Distribution Averaging

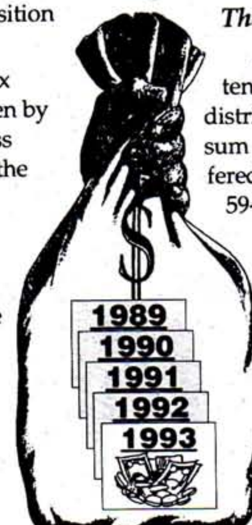
A short recap of the legislative history behind lump-sum distribution averaging is appropriate here. Before the provisions of the Tax Reform Act of 1986 became effective on Jan. 1, 1987, only 10-year-averaging of pension distributions was allowed. Five-year-averaging was added at that time. (Ten-year-averaging has been gradually phasing out since then.)

Before 1986 there was no limitation on the number of times this could be done, and only ONE of the following criteria had to be met:

- employee reaches 59-1/2, or
- employee separates from service, or
- employee dies, or
- employee becomes disabled.

The procedure came to be commonly used by those in high-compensation professions who had not yet reached retirement age. These individuals were able to accumulate significant plan balances, then average large lump-sum distributions they received when they "separated from service" and moved on to a new position of employment.

This resulted in substantial tax advantages for distributions taken by non-retired individuals. Congress tightened these provisions with the Tax Reform Act of 1986, its new rules favoring rollovers or transfers to IRAs or other qualified plans rather than distribution averaging. But in so doing, these post-1986 provisions may result in harsh or punitive consequences in certain situations.



A Key New Statutory Requirement

One of the key provisions of the new rules – and a point upon which the following example hinges – is the new statutory requirement that in order to five-year-average, the lump-sum distribution must be "... received on or after the date on which the **employee** (emphasis ours) has attained age 59-1/2 ...".

Case History: A Challenge to This Provision

Are there any exceptions to the "after-59-1/2" limitations on use of the five-year-averaging option? The spouse of one deceased plan participant believed there were. Following the death of her husband who was not yet 59-1/2, she took a lump-sum distribution from his qualified plan, claimed five-year-averaging on her income tax return, and subsequently found herself at odds with the IRS in U.S. Tax Court over her claim and tax approach.

Her Argument Before the Court

The spouse successfully asserted that the distribution was indeed a lump-sum distribution per Code section 402(e)(4)(A), which is the initial requirement for five-year-averaging. But the spouse also contended that the provision limiting five-year-averaging of lump-sum distributions to those 59-1/2 or older (Code section 402(e)(4)(B)(i)) concerned only such distributions to an **employee**, not a designated beneficiary. The exact language she focused on in the section referring to lump-sum distributions reads: "... with respect to an employee ...".

Thus the spouse used this definition in its narrowest meaning to support her case. She, according to the reasoning, was not the employee and therefore not limited by the post-59-1/2 requirement.

The Court's Response

As to the spouse's first contention, the Court agreed that the distribution DID qualify as a lump-sum distribution. But the Court differed with her with regard to the post-59-1/2 limitation and its application to those other than the specific plan participant. The Court pointed out that in its interpretation of the Code, all distributions, no matter whether paid out to the actual plan participant or paid out to another recipient, are made "with respect to" an employee and his or her plan assets. The spouse's reading of this passage to mean the same thing as "paid to" was in error, the Court judged. The lump-sum distribution of her husband's plan assets was still a distribution "with respect to" him, and therefore the limitation would apply.

Additionally, the Court referred to the language of the pertinent passages describing the five-year-averaging limitation clause; in particular, the subheading reads: "Averaging to apply to 1 lump-sum distribution after age 59-1/2."

The Court pointed out that this subheading does not indicate that lump-sum distribution to the actual employee (plan participant) would be treated any differently from distributions to others (such as beneficiaries). No reference to persons – employees or otherwise – is made in this subheading.

Court Refers to Legislative History

The Court noted that there is adequate prior legislative history concerning the handling of tax treatment for distributions to widows of deceased pre-59-1/2 employees. This history, the Court contended, shows such beneficiaries NOT to be exempt from pre-59-1/2 requirements.

Thus, this widow of a deceased pre-59-1/2 qualified plan participant, having taken a lump-sum distribution, is liable for its full tax burden as "regular income" in the year received. She cannot improve her situation through five-year-averaging as she had hoped.

Spouse Fails – Continued on page 3

Spouse Fails

Continued from page 2

Harshness of Current Rules is Clear

This situation points out how far the regulatory pendulum can swing from one side of an issue to the other. From the very liberal 10-year-averaging rules that did not require attainment of age 59-1/2 (unless neither death, disability nor separation from service applied), the current age 59-1/2 requirement can have harsh consequences. A spouse beneficiary who may be heavily dependent on a husband or wife's plan assets may be denied a tax option that could be beneficial to them.

This may well be a situation in which an individual, or their tax advisor, got "caught" by assuming that rules favoring beneficiaries in such cases had been retained under new law.

1. Pre-59-1/2 Limitation and Options in Spousal Situations

Even though five-year-averaging is precluded if the deceased plan participant has not reached age 59-1/2, rollover of his or her assets to the spouse's OWN IRA is a good alternative. Had the spouse in our example been properly counseled, she might very well have chosen a rollover.

Other options, if the plan allows, are total distribution within five years, or a life distribution schedule. In either case, amounts received are treated as ordinary income in such years and taxed accordingly.

2. Pre-59-1/2 Limitation and Options in Non-Spousal Situations

Non-spouse beneficiaries do not have the option to roll over the plan participant's assets. Depending on the limitations within the plan, they may be able to take non-lump-sum distributions in the form of a five-year payout, or a life distribution. Both options spread out their tax liability by reducing the amount that must be distributed and taxed in a given year.

But **not all plans are written so liberally.** The fact that the IRS allows this does not mean that the plan will. Some plan administrators prefer to see funds leave the plan as soon as possible when the employee has died. Therefore, some plans are written in a way that **requires a lump-sum distribution**.

If the beneficiary is a non-spouse, and cannot 5/10-year-average the distribution, they – depending on the magnitude of the deceased participant's assets – may face substantially increased tax liability in the distribution year. And consequently, a much greater loss of the inherited assets through taxation. PD

Definition

Continued from page 1

such relationship banking practices for customers that meet certain account type or account balance criteria. In general, the rules prohibit institutions from discrimination against IRAs or Keoghs in either rate-of-return or investment opportunity, when compared to other accounts that do not receive the same free or reduced-cost services. Such programs also must be consistent with state and federal banking laws.

Securities Originally Were Not Included

Under PTE 93-33, the definition of "deposit" for purposes of meeting the exemption did not originally include investments in securities. IRAs and Keoghs with such investments therefore did not qualify. (As originally written, PTE 93-33 also did not include SEP plans. SEP plans were added by an amendment in May of 1993.) On Nov. 19, the DOL made the current amendment proposal to further broaden the exemption **to include IRAs and Keoghs with securities investments**, provided that these are securities investments for which market quotations are readily available (whose value can therefore be readily determined).

The DOL's rationale for proposing this amendment appears to be to permit those with IRA and Keogh plans a wider range of investment options than was possible under the prior definition of "deposit", while still retaining the exemption. This exemption would not, however, apply if the investments in question were offered only to those with IRAs or Keoghs.

Written comments or requests for a public hearing on this proposed amendment should be made no later than Dec. 31, 1993. Those who have comments on how a relationship banking program that included such securities would work, or on whether additional safeguards for PTE 93-33 are desirable, are especially encouraged to submit comments. These and all relevant others should be sent to:

Labor Department, Office of Exemption Determinations, Pension and Welfare Benefits Administration, Room N-5649, 200 Constitution Ave. NW, Washington, D.C. 20210. PD

IRA Amendment

Continued from page 1

2. Under the Budget Act of 1993, there are new limits on the amount of an employee's compensation that can be considered in determining a tax-deductible employer contribution to a SEP-IRA plan. that limit is now \$150,000 (and will be indexed), reduced from the former \$200,000 (which with indexing had reached \$235,840).

Additional Provisions of Concern

In addition to these changes brought about by the 1993 tax bill, two other items are important. They are:

a. The new formula that aggregates IRAs and certain other retirement plans for FDIC insurance coverage, with a MAXIMUM total of \$100,000. Formerly, EACH plan had \$100,000 of coverage.

b. New IRS rules for the withdrawal of certain current-year IRA contributions under Code section 408(d)(4).

What Kind of Amendment?

The above changes are covered in a simple one-page amendment provided by CWF. Please call us for information on price and availability, at 1-800-346-3961.

If/When You Should Amend

Your need to amend depends on the degree of detail and compliance precision on these subjects contained in your present IRA plan documents or amendments. Some suppliers' forms are silent or indefinite on these issues. These forms may not require amendment, but they are also weak in their adherence to the IRS mandate that the IRA Disclosure Statement must contain a "plain English" discussion of all important rules that affect IRAs.

CWF IRA plan agreements and amendments do contain these details.

If you use CWF IRA plan agreements or amendments, or those of another supplier that contain these provisions that are now changed by the new tax bill, here are your options:

1. Provide this amendment as soon as convenient, perhaps in the Fair Market Value (customer statement) mailing that must be furnished to accountholders by Jan. 31, 1994.

2. Wait for an interim period on the chance that additional IRA changes may take place in the coming year. This means, however, that your customers' plans will temporarily have these out-of-date provisions.

3. Disregard these changes as minor, and do nothing.

Though Option 1 is most recommended, we feel comfortable with temporarily deferring this amendment as in Option 2, but no later than Dec. 31, 1994.

WE DO NOT RECOMMEND disregarding this amendment entirely if your plan documents and amendments have these provisions.

For further guidance on this subject, contact Jim Carlson or one of the other CWF IRA consultants at 1-800-346-3961. PD

Plan Now for January Customer Reporting of IRA Fair Market Value and 1099-R

We would like to remind *Pension Digest* subscribers of the fast-approaching deadline for reporting of Dec. 31, 1993, IRA fair market values (FMV), which must be provided to accountholders by Jan. 31, 1994. This report is also known as the "customer statement".

The importance of completing this reporting in an accurate and timely fashion cannot be overemphasized. As we described in detail in the November 1991 issue of *The Pension Digest*, there are substantial penalties for filing failures.

Also covered in the November 1991 issue were:

- who is entitled to receive a customer statement;
- notes on deceased accountholders;
- inherited accounts/customer statement reporting;
- enclosures allowed with this mailing;
- required language on statements;
- the 5498 exception.

If you'd like a copy of this back issue, please send $2 plus a stamped, self-addressed envelope to: The Pension Digest, Customer Statements Reprint, P.O. Box 426, Brainerd, MN 56401.

Consulting customers may call at any time for clarification of questions about customer statement mailings at 1-800-346-3961.

1099-R Reminder, Too

IRA Custodian institutions are also reminded of the deadline of January 31 for Form 1099-R reporting to customers. The 1099-R reports both partial and total IRA distributions. It has a January 31 deadline because it may be needed by the customer for income tax reporting.

The actual IRS-version 1099-R, or a substitute that meets IRS specifications, may be used. Failure to file the 1099-R in a timely fashion is subject to a penalty of $25 per day per form, with a maximum annual penalty of $15,000. (The November 1991 *Pension Digest* also discussed these requirements in detail.) PD

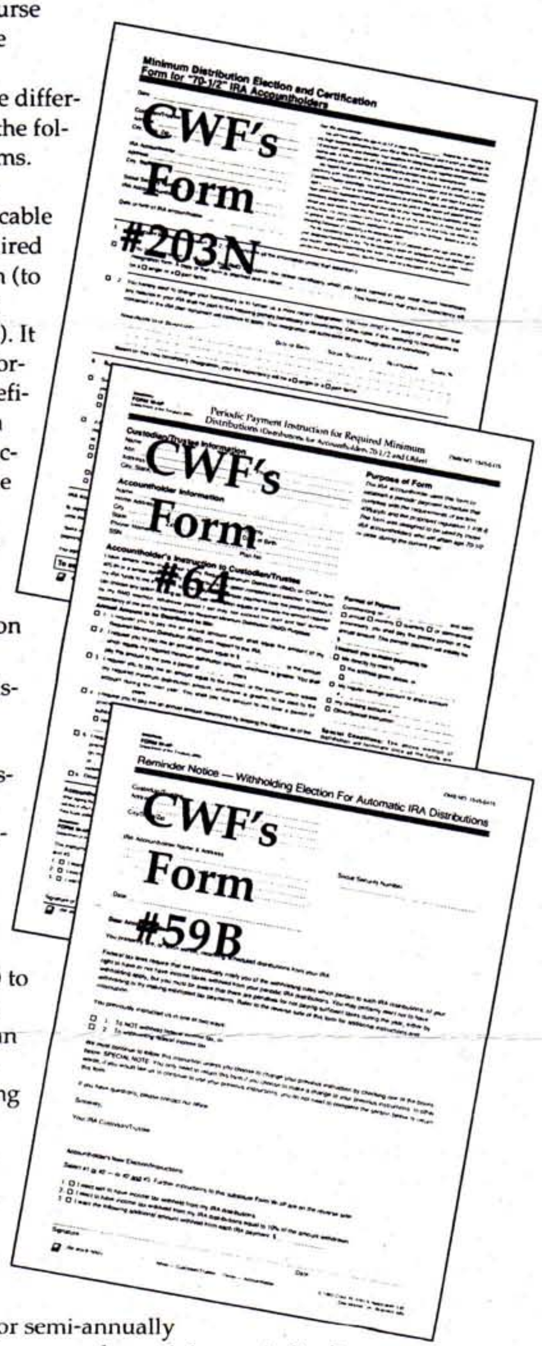
✓✓✓ Check It Out ✓✓✓

Question: When an accountholder turns 70-1/2, what forms should be filled out in order to handle their distribution elections and calculations properly?

✓ Answer. This is a very important time in the life of an IRA accountholder, and the administrative responsibilities cannot be taken lightly.

The forms you use will of course depend on your source, or service provider.

Different providers may have different approaches. We recommend the following approach, using three forms.



CWF Form #203N is used to obtain the accountholder's irrevocable elections for purposes of the required minimum distribution calculation (to ensure that the 50% excise tax for under-distribution will not apply). It is only signed once. It obtains information about the designated beneficiary(ies), to determine whether a single or a joint life expectancy factor will be used. It also gathers the election with respect to whether recalculation or nonrecalculation will be used. The elections from this form are used to calculate the required minimum distribution amount for any given year.

The rule is that the annual distribution amount to be paid the accountholder must equal or exceed the required minimum distribution amount. However, the accountholder does need to establish a periodic payout schedule, which can be changed. CWF has developed Form #64 (Periodic Payment Instruction for Required Minimum Distribution) to be used to establish this periodic payout schedule. It provides for an ongoing distribution instruction, and handles the initial withholding requirement.

To handle the ongoing withholding requirements, another form is needed, CWF Form #59B or #59C. (Alternatively, the IRS Form W-4P could be used, but it is not as easy to use as the CWF forms.) Remember that annually or semi-annually the IRA custodian must remind those people receiving periodic distributions that their previous withholding will continue to apply if not altered, that penalties may apply for underwithholding, and that they may change their previous withholding instruction. PD

The Pension Digest invites your questions and comments.
Please address to "Check It Out," Collin W. Fritz and Associates, Ltd., P.O. Box 426, Brainerd, MN 56401.

THE Pension Digest EXTRA

A supplement to your monthly pension newsletter

IRS Extends VCR Program for Correcting Plan Defects

Voluntary Compliance Program is Also Expanded, Simplified

The Voluntary Compliance Resolution (VCR) program was created to enable qualified retirement plan sponsors to correct plan defects as painlessly as possible. If left unresolved, such defects can threaten the tax-deferred status of a qualified retirement plan. The consequences of plan disqualification are great. They may include loss of contribution deductions for the employer, as well as an unexpected and potentially large tax burden for plan participants, whose contributions are no longer tax-deferred.

The VCR program applies specifically to plans that have certain "operational defects", and are not already under review for possible compliance failures. Plan administrators in effect "own up" to compliance problems, and are "forgiven" if the employer pays a certain fee, corrects the defect(s), and shows evidence of an intent to administer the plan properly in the future.

The program was initiated under Revenue Procedure 92-89 and was scheduled to expire on Dec. 31, 1993. However, Revenue Procedure 93-36 was issued on Sept. 20, 1993, (advance notice issued August 30), extending the program through Dec. 31, 1994. Given the simplification and refinements included in this latest Revenue Procedure, it appears that the program is being viewed as a positive step to correcting plan defects. The newest changes appear to be designed to make it even more so.

What Plans Qualify?

Plans that may be corrected under this program are those guilty of "operational" violations under Code section 401(a). Examples of operational defects include:

- failure to perform nondiscrimination testing on the plan's allocation of contributions;
- improperly applying vesting schedules to employees;
- improper application of eligibility and participation rules;
- failure to obtain spousal consent when required;
- use of incorrect compensation definition(s) when allocating contributions;
- improper administration of plan loans.

VCR Program – Continued on page 2

VCR Application Procedure

Normal case processing under the VCR program requires the plan sponsor to send a letter to the National Office containing the following:

1. a description of the operational defects and the years in which the defects occurred;
2. description of the current administrative procedures;
3. explanation of how and why the defects occurred;
4. description of the proposed method of correction;
5. description of the measures that will be implemented to assure that the defects do not occur again;
6. a statement attesting that the plan is not currently under examination by the IRS.

Final Reminder: IRA Amending for Rev. Proc. 92-38 Completed?

Approximately one year ago financial institutions began amending their IRAs to comply with Announcement 93-3, incorporating the new IRA plan language issued in October 1992. Announcement 93-3 required amending to be completed by Dec. 31, 1993. Many institutions did so with their January 1993 Fair Market Value (customer statement) mailings or their June statements. Most others have amended since that time.

But a few institutions have not yet amended for this, the most sweeping amendment since the Tax Reform Act of 1986. If you're one of these institutions, you have very little time to comply. Please call us at 1-800-346-3961 for more information.

(Note: This should not be confused with amending for the Revenue Reconciliation Act of 1993, the 1993 budget act; discussed elsewhere in this issue.) PD

IRA Disclosure for Annuity, Securities Investments Available

As subscribers to *The Pension Digest* are well aware, the compliance concerns raised by investments in annuities and securities are of great importance. The last several issues of *The Pension Digest* have gone into great detail on the possible prohibited transactions that may occur if financial institutions receive commissions for directing IRA investments into certain annuities or securities.

Proper disclosure is a method of dealing with the prohibited transaction risk. In other words, you must ensure – and be able to prove – that the customer is fully informed of the pertinent details of the transaction before it is made.

Collin W. Fritz and Associates has drafted a disclosure document to be used by IRA custodians whenever they may be receiving a commission for such an annuity or securities investment transaction.

Please call us at 1-800-346-3961 for more information. PD

VCR Program

Continued from page 1

What Plans Do Not Qualify?

As stated above, plans that are already under an Employee Plans examination are not eligible. Plans must also have been issued a Determination Letter which had taken into consideration the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982, the Tax Reform ACT (TRA) of 1984, and the Retirement Equity Act (REA) of 1984.

Furthermore, under the previous Revenue Procedure 92-89, plans whose violations are of an "exclusive benefit" nature, or that are guilty of "repeated, deliberate or flagrant" violations, were also not eligible. These provisions have been changed somewhat by R.P. 93-26.The "repeated, deliberate and flagrant" clause has been replaced with a standard that the plan's operational defects must not be "egregious" – meaning notably or unusually flagrant. Repeatedly and wrongfully contributing only on behalf of highly compensated employees would be an example of an "egregious" violation.

Reportedly, virtually any plan that has a proper determination letter and is not already under audit may apply under this program's new provisions.

Some Plans Have A Simpler Compliance Option

Plans that fail to meet a qualification requirement that became effective on or after Jan. 1, 1989, need not – indeed cannot – apply for relief under the VCR program. Such plans already have another option through the "Remedial Amendment Period" (Rev. Proc. 92-36), which does not expire until the final day of the 1994 plan year.

Such plans can correct these defects by retroactive amendment rather than participating in the VCR program or paying the program's sanction fee.

(However, if the plan defect(s) arose after the proper amendments for post-Jan. 1, 1989, qualification requirements were made, the plan IS eligible for correction under the VCR program.)

VCR Application Procedure

Normal case processing under the VCR program requires the plan sponsor to send a letter to the National Office containing the following:

1. a description of the operational defects and the years in which the defects occurred;

2. description of the current administrative procedures;

3. explanation of how and why the defects occurred;

4. description of the proposed method of correction;

5. description of the measures that will be implemented to assure that the defects do not occur again;

6. a statement attesting that the plan is not currently under examination by the IRS.

Compliance Statement Received by the Plan from the IRS

Having provided the above six items to the IRS, the plan sponsor will receive a compliance statement from the National Office of the IRS which includes:

A. The statement will identify the defects, the required corrective action, procedures to be implemented and the time frame for implementation.

B. Only those operational defects noted by the plan sponsor will be covered by the IRS compliance statement.

C. The plan sponsor must sign and return (within 21 days of issuance) a letter of acknowledgement agreeing to the terms of the IRS compliance statement.

D. If the acknowledgement is not signed and returned the plan will be referred to the appropriate District Office for examination.

Rev. Proc. 93-36 Adds Streamlined Review Procedure Option

Before Revenue Procedure 93-36, normal case processing of most VCR requests was the same regardless of the kind of operational defect. Fees under normal case processing were essentially determined by plan size, and could range anywhere from $500 for a small plan to $10, 000 for a large plan.

However, much has changed to streamline case processing with the arrival of R.P. 93-36. Newly in place is what is called the "Standardized VCR Procedure", or SVP, intended to ease the burden of plan sponsors (and probably the IRS as well). Its requirements are simpler and – as the name suggests – more standardized, including a standard $350 penalty.

The operational defects qualifying for SVP treatment include:

1. failure to provide the minimum top-heavy benefit to "non-key" employees under section 415;

2. failure to satisfy the ADP, ACP or multiple-use tests;

3. failure to properly distribute elective deferrals;

4. exclusion of eligible employees from plan participation.

Operational defects other than these will continue to be reviewed under normal Voluntary Compliance Resolution case processing procedures.

The SVP Application, Compliance Procedure

When a plan sponsor wishes to participate in this abbreviated compliance/ correction procedure, they must submit a "SVP Notification Letter" to the IRS National Office, providing:

a. the same basic information describing the operational defect, current procedures, how and why the defect occurred, etc.;

b. a description of the corrective method (found in section 7 of R.P. 93-36), and a statement that the sponsor will follow that standard correction method;

c. the time frame within which the correction will be made. Ninety days is the normal time allotted for correction. However, an additional 30 days (120 days total) may be requested when the Notification Letter is submitted, providing the reason for the extension request;

d. the $350 Voluntary Compliance fee, submitted at the time of the request.

(Copies of Form 5500 need not be enclosed.)

SVP Not Mandatory for These Operational Defects

Just because a plan's operational defect(s) qualifies for handling under the simplified Standardized VCR Procedure program, this does not mean it must be pursued in this fashion. If, for example, a plan sponsor wishes to propose an alternative method for correction to that outlined in R.P 93-36 (item B above), the sponsor may use the normal VCR Program with its more individualized case processing procedures.

R.P. 93-36 Also Modifies Aggregating Rule

Under the "old rules", any plan that is aggregated with another plan that is currently under IRS examination was excluded from consideration under the Voluntary Compliance Resolution program. However, Revenue Procedure 93-36 has modified this. An aggregated plan under such circumstances may now request inclusion in the program and an eventual VCR compliance statement from the IRS, provided that the defect in this plan is not related to a provision by which the plans are aggregated (such as vesting, etc.).

What to Expect in the Future

Some believe that the operational defects now included in the simplified SVP option are only the beginning. They conjecture that more operational defects may be added in the future in order to induce greater participation in the overall VCR Program.