

FEDERAL RESERVE BANK
OF NEW YORK

At Cir. No. 9292

May 17, 1982

PREMIUMS FOR ESTABLISHING IRA OR KEOGH ACCOUNTS

*To the Chief Executive Officer of Each State Member Bank
in the Second Federal Reserve District:*

The Board of Governors of the Federal Reserve System and the other Federal agencies supervising financial institutions have been advised by the U.S. Department of Labor and the Internal Revenue Service that some financial institutions have been offering gifts or premiums of substantial value to persons who establish IRA or Keogh accounts. In addition, premiums in the nature of "finder's fees" or related incentives have reportedly been offered to third parties who bring in persons to establish such accounts.

The Labor Department and the IRS have previously announced that payment of substantial premiums either to the persons establishing the accounts or to third parties could constitute a violation of the Employee Retirement Income Security Act of 1974 (ERISA). They plan to propose retroactive class exemptions establishing acceptable standards under ERISA for the payment of any such premiums. These standards would provide that a premium received for establishing an IRA account will not be considered a prohibited transaction if:

1. The IRA is established solely to benefit the person receiving the premium, his or her spouse and their beneficiaries, and
2. The fair market value of the property or the cash received is not more than \$10 for deposits of less than \$5,000 and \$20 for deposits of \$5,000 or more.

Until final rules are adopted, State member banks offering premiums in connection with the establishment of IRA or Keogh accounts are cautioned to adhere to the above standards in order to avoid violations under ERISA. In particular, it should be noted that the standards **completely prohibit** the offering of payments in the nature of "finder's fees" to third parties, or to an **employer** whose employees set up a payroll-deduction IRA.

Questions on this matter may be directed to our Regulations Division (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,
President.