INTRODUCTION OF INDIVIDUAL RETIREMENT ACCOUNT (IRA) LEGISLATION

HON. RICHARD E. NEAL

OF MASSACHUSETTS

IN THE HOUSE OF REPRESENTATIVES

Thursday, January 9, 1997

Mr. NEAL of Massachusetts. Mr. Speaker, today Mr. Thomas and I are introducing the Super IRA bill. This bill is comprehensive individual retirement account [IRA] legislation. The main purpose of this legislation is to make it easier for individuals to save for retirement.

Saving for retirement is an issue which we must address. The Super IRA legislation will help with retirement and we can do this in a bipartisan manner. The phase ''economic security'' has become part of our vocabulary. During this session of Congress, we should do as much as possible to make individuals more secure in their retirement.

Statistics about retirement and our savings are not promising. Chairman Alan Greenspan of the Federal Reserve once stated that our low national savings rate is our No. 1 economic problem. Our national savings rate is only 1 percent of GDP.

We are beginning to face what has been commonly referred to as the ''graying of America.'' Within 30 years 1 out of every 5 Americans will be over 65. In 15 years, the baby boomers will begin turning 65. The baby boomers generation consists of 76 million people and this will result in Social Security beneficiaries doubling by the year 2040. Less than half of American workers are covered by private sector pensions.

The Super IRA legislation provides incentives for individuals to save for their own retirement. This legislation makes it easier for individuals to become personally responsible for their retirement. It will make all Americans eligible for fully deductible IRA's by the year 2001. Current law only allows those taxpayers who are not covered by any other pension arrangement and whose income does not exceed $40,000 to be eligible for a fully deductible IRA.

The 10-percent penalty on early withdrawals would be waived if the funds are used to buy a first home, to pay educational expenses, or to cover any expense during periods of unemployment. These are necessary legitimate purposes. Otherwise these savings should just be used for retirement.

The legislation creates a new type of IRA called the IRA plus Account. Contributions would not be tax deductible, but earnings can be withdrawn tax-free if the account is open for at least 5 years and the IRA holder is at least age 59½. These accounts provide another savings vehicle for individuals.

Super IRA legislation is not a panacea for the social insecurity that we will inevitably face, but is a reasonable, concrete solution to make retirement savings easier. I urge you to become a cosponsor of this legislation. I look forward to working on the passage of the Super IRA legislation during this session of Congress.

INTRODUCTION OF INDIVIDUAL RETIREMENT ACCOUNT [IRA] LEGISLATION

HON. WILLIAM M. THOMAS

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Thursday, January 9, 1997

Mr. THOMAS. Mr. Speaker, today I am introducing the 105th Congress version of the Super IRA legislation we expect to restore real savings incentives to the Internal Revenue Code. This year's bill, the Savings and Investment Incentive Act of 1997, represents the best selection of options for restoring and improving the Individual Retirement Accounts that have been so popular with taxpayers. All taxpayers will ultimately be able to choose between having an Individual Retirement Account that allows them to deduct contributions for their retirement savings and an IRA Plus account allowing them to earn tax-free income.

An outline of the bill follows. In addition, I want to note that Senate Finance Chairman ROTH and Senator BREAUX, with whom I have worked closely in developing the bill, will be introducing the Savings and Investment Incentive Act later this month. All of us agree that taxpayers need and deserve the savings incentives this bill provides.

It is obvious that the American taxpayer needs and wants the savings incentives this bill will provide. Studies indicate that today's ''baby boomer'' workers are only saving 36 percent of the funds they will need to maintain their standards of living after retirement. In fact, people aged 60 to 64, those closest to retirement, only have about $1,700 in financial assets in the form of savings, checking, and similar kinds of accounts. We need to give taxpayers control of their funds so they can better prepare for the future.

The Super IRA bill makes critical changes in the law so taxpayers will have plenty of options to choose from in saving for their future. The income caps that prevent many people from making deductible contributions to IRA's are eliminated over a 5-year period. A new kind of account called an IRA Plus account would be offered so taxpayers could earn tax-free income. The bill makes all IRA's easier for taxpayers to use because it eliminates the need to coordinate contributions with other kinds of retirement arrangements. This bill gives taxpayers the liquidity they want. Funds could be withdrawn from either type of IRA to fund family needs such as education, the purchase of a first home, or family support during periods of long-term unemployment.

IRA's enjoy a good deal of popularity among taxpayers. A number of surveys show just how popular they are. One poll found 74 percent of the respondents would increase their savings if they had tax incentives to do so, precisely what the Super IRA bill provides. Another survey conducted in 1995 found that 77 percent of those contacted supported letting everyone have deductible IRA's while 69 percent like the idea of penalty-free withdrawals for purchasing a first home, to provide education, or meet family needs during extended unemployment.

IRA's are a savings incentive that everyone can support. Republicans and Democrats can support this bill and I hope my House colleagues will join me in seeking to have the Savings and Investment Incentive Act enacted this year.

SUPER INDIVIDUAL RETIREMENT ACCOUNT LEGISLATION

DESCRIPTION OF PROVISIONS

Makes tax deductible IRAs available to all Americans

Under the legislation, all Americans would be eligible for fully deductible IRAs by the year 2001. Current law only allows those taxpayers who are not covered by any other pension arrangement and whose income does not exceed $40,000 ($25,000 for singles) to be eligible for a fully deductible IRA. These income limits would be gradually eliminated over a four year period beginning 1997.

The $2,000 contribution limit would be indexed for inflation in $500 increments.

Homemakers and other workers without employer pensions would be permitted to make up to a $2,000 tax deductible IRA contribution regardless of whether their spouses have an employer pension. This provision builds on the homemaker IRA provisions in the ''Small Business Job Protection Act of 1996'' signed into law in 1996.

New kind of IRA—''IRA Plus Account''

Taxpayers will be offered a new IRA choice called the ''IRA Plus Account.'' Under the IRA Plus Account, contributions would not be tax deductible. However, earnings on IRA Plus Account assets can be withdrawn tax-free if the account is open for at least 5 years and the IRA holder is at least age 59½. A 10% penalty would apply to early withdrawals unless they meet one of three special purpose distributions described below.

Taxpayers can contribute up to $2,000 to either a tax deductible IRA or a non-tax deductible IRA Plus Account. They can also allocate any portion of the $2,000 limit between these two IRA accounts, (e.g., $1,000 to a tax deductible IRA and $1,000 to the IRA Plus Account).

Penalty-free IRA withdrawals for special purposes

The 10% penalty on early withdrawals would be waived if the funds are used to buy a first home, to pay educational expenses or to cover any expense during periods of unemployment (after collecting unemployment compensation for at least 12 weeks). Participants in 401(k) plans and 403(b) annuities could also receive penalty-free withdrawals for these purposes under the legislation. Taxpayers will still be liable for the income tax due on the withdrawal, but no penalty tax would apply. Note: penalty-free withdrawals from IRAs for medical expenses were provided under the ''Health Insurance Portability and Accountability Act of 1996'' signed into law in 1996.

Conversion of IRAs into IRA Plus Accounts

Taxpayers will be allowed to ''convert'' their old IRA savings into IRA Plus Accounts without incurring an early withdrawal penalty or an excess distribution penalty. However, individuals must pay income tax on previously deducted contributions and corresponding earnings. If the conversion is made before January 1, 1999, the taxpayer can spread the tax payments over a four-year period.

Other features of the Thomas/Neal legislation

IRA and 401(k) contributions would not have to be coordinated.

IRA funds could be invested in certain coins and bullion.