

## **BIPARTISAN IRA PROVISIONS SHOULD BE ENACTED**

Our national savings rate stands at a historic low, threatening our economic future and the financial prospects of tens of millions of Americans who will be retiring in the years ahead. Last year, there was overwhelming bipartisan support for legislation increasing retirement savings incentives, including a long overdue increase in the amount that can be contributed to Individual Retirement Accounts (IRAs). In the House, retirement savings legislation received over 400 votes. In the Senate, a bill was reported unanimously by the Finance Committee.

When Americans retire they rely on three sources of income; employment-based retirement plans, social security and personal savings. IRAs are the key element of personal savings. Now, by enacting IRA expansion like that contained in last year's bipartisan bills, there is an important opportunity to complete the effort that was started last Congress. Prompt enactment of IRA changes described below will help ensure that all Americans will have the tools to achieve a secure retirement and will send a strong signal of bipartisan cooperation early in this Congress.

***Increasing the Annual IRA Contribution Limit.*** Under the bipartisan proposals, the contribution limit for all IRAs would be increased from \$2,000 to \$5,000. Unlike most provisions of the tax code, the current \$2,000 IRA limit is not adjusted for inflation and has not been increased since 1981. In fact, if the IRA contribution limit had merely been indexed for inflation when originally enacted, the contribution limit would be ***more than*** \$5,000 today. In light of IRAs' proven track record for helping Americans save, an increase in the amount that can be contributed to an IRA is long overdue.

***Allowing IRA Catch-Up Contributions.*** Under the bipartisan proposals, individuals age 50 and over would be allowed to make additional "catch-up contributions" to IRAs and other retirement savings plans. In many instances, these individuals have a retirement savings shortfall due to time away from the workforce to raise children, lack of access to retirement plans earlier in their lives, or the need to spend scarce financial resources on other urgent priorities (such as their children's college expenses). Now, with more and more Americans focused on the need to save for retirement, a "catch-up contribution" will give them a way to put away the extra money that they will need in their retirement years. It is critical, however, that these catch-up contributions be large enough to allow those nearing retirement to make up for years when savings opportunities may have been missed. Bipartisan Senate legislation allowed a catch-up of up to 50% of the otherwise applicable contribution limit (e.g., when fully phased-in, an additional \$2,500 IRA contribution would be permitted).

***Making IRAs Available to More Americans.*** Today, deductible IRAs are generally available only to taxpayers with income below certain statutory limits. Similar, although somewhat higher, limits apply for Roth IRA and spousal IRA eligibility. In order to ensure that all Americans can use the IRA to save for retirement, these income limits should be eliminated, or at a minimum increased. Under many bipartisan proposals, eligibility to contribute to a deductible IRA would be phased-in more rapidly than under current law.

***Eliminating the marriage penalty for IRA eligibility.*** The marriage penalty on IRA eligibility should be eliminated, as was provided in a number of bipartisan proposals in the last Congress. As a matter of public policy, the tax code should not provide a disincentive to marriage, and these bipartisan proposals would help eliminate this aspect of the tax code's marriage penalty.