INDIVIDUAL RETIREMENT ACCOUNTS (IRAS): TAX INCENTIVES FOR RETIREMENT SAVINGS

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ISSUE DEFINITION

Many workers covered by employer-sponsored retirement plans do not work long enough with one employer to be entitled to a pension. Others may be covered by a profit-sharing plan to which the employer may have little or no profits to contribute. Since these individuals were "covered" by a retirement plan, they were ineligible to make tax-deductible contributions to a tax-sheltered Individual Retirement Arrangement (IRA). Many observers considered this a tax inequity and felt that all employees should be eligible to establish their own IRAs or make tax-deductible contributions to their employer's plan. Congress responded to this situation by approving retirement savings incentives for all workers as part of the tax cut bill (H.R. 4242). All workers, whether or not covered by an employer pension plan, are now permitted tax deductible contributions to IRAs up to $2,000 a year.

The Economic Recovery Tax Act of 1981 was signed by President Reagan on Aug. 13, 1981 (P.L. 97-34).

BACKGROUND AND POLICY ANALYSIS

The concept of providing tax incentives to individuals to save for their own retirement can be traced to a message presented to the Congress in 1971 by President Nixon who pointed out that many individuals were not covered by private pension plans, on the one hand, nor furnished tax incentives to save for their own retirement like the self-employed, on the other hand (Message from the President of the United States concerning private pension plans, House of Representatives Document No. 92-182.) To meet their special needs, the President recommended that employees who wish to save independently for their retirement or to supplement employer-financed pensions should be allowed to deduct for tax purposes amounts set aside for retirement.

In enacting the Employee Retirement Income Security Act of 1974 (ERISA), Congress initially limited the tax incentives to individuals not covered by an employer-sponsored pension program since they generally would be more in need of supplemental retirement income. These individuals were permitted to contribute to an Individual Retirement Arrangement (IRA) the lesser of 15% of compensation or $1,500.

During the 97th Congress numerous legislative proposals were introduced to expand tax incentives for individual retirement savings. Several commissions also recommended changes in the tax code to stimulate retirement savings. In its final report, the President's Commission on Pension Policy concluded that favorable tax treatment should be extended to employee contributions to pension plans. The Commission recommended a refundable tax credit for low and middle income people to encourage voluntary individual retirement savings and employee contributions. At the time of tax filing the employee would choose the higher of a tax deduction or a tax credit. The final report of the National Commission on Social Security recommended that the $1,500 annual limit on IRA contributions should be increased. The Administration included new and expanded IRA provisions as part of the Economic Recovery Tax Act of 1981.

Individual Retirement Account (IRA)

Effective for tax years beginning after Dec. 31, 1981, employees and self-employed persons receiving earned income can establish their own individual retirement plans, even if they are already covered under tax-qualified plans (including Keogh plans), government plans, or certain annuities. All individuals receiving compensation can contribute the lesser of 100% of earned income or $2,000 annually to an IRA. They may also deduct voluntary contributions to their employer's plan (public or private). However, if an individual contributes to an IRA as well as to his employer's plan, the deduction for contributions to the IRA is limited to $2,000 less the voluntary contributions made to his employer's plan.

If the individual has a nonworking spouse, up to $2,250 may be contributed to a so-called "spousal IRA." Contributions to a spousal IRA need not be equally divided between spouses, but no more than $2,000 may be contributed to one account.

IRAs may be established by individuals themselves or by employers, labor unions, and other employee associations. The IRA can be maintained with a bank, credit union, or savings and loan association and with insurance companies or mutual funds. In order to protect investment flexibility, an individual is permitted once a year to shift his investment from one type of IRA to another without tax liability. Investments may no longer be made in "collectibles" (e.g., gold, diamonds, antiques, stamps, paintings, etc.).

The following table prepared by the U.S. Savings League shows the estimated share of IRA and Keogh funds by institutional type.

TABLE 1. Shares of IRA/Keogh funds
(percent)

	1977	1978	1979	1980
Life insurance companies	25.1	21.3	19.3	18.4
Mutual funds	15.9	13.3	13.1	14.7
U.S. Treasury retirement	1.4	1.1	.8	.7
Commercial banks	15.9	18.3	19.8	18.3
Mutual savings banks	11.7	12.1	12.3	12.6
Savings & loan associations	30.0	33.9	34.7	35.3
Total	100.0	100.0	100.0	100.0
Total amount outstanding (millions of dollars)	$13,500	$18,399	$24,795	$31,085

Source: American Council of Life Insurance, "Pension Facts, 1978-1979." Investment Company Institute, U.S. Treasury Department, Board of Governors of the Federal Reserve System, National Association of Mutual Savings Banks and Federal Home Loan Bank Board.

Contributions can be made to an IRA at any time during the tax year up until the time the individual files his tax return. Very simply, if an IRA is created, money paid into the plan is deducted from gross income -- it is taken "right off the top" whether or not the individual itemizes deductions. Earnings on the money paid into the plan are exempt from current taxation. The funds set aside and the earnings thereon are not taxed until they are distributed to the individual. Normally this occurs after retirement, when the individual may be in a substantially lower tax bracket. Unless disabled, any distributions from an IRA are subject to a 10% penalty tax if the individual has not reached age 59-1/2. For the average family this amounts to about a 5-year "lock-in" period during which the IRA can only become liquid at a penalty. Moreover, to encourage the use of an IRA for retirement purposes, a stiff penalty tax (50% of the amount by which the required distribution exceeds the actual distribution) is imposed if the individual does not begin sufficiently drawing on the IRA by the time he reaches age 70-1/2.

How Much Will An IRA Be Worth?

IRA projections are often presented in current dollars without any adjustment for inflation. This can be misleading to consumers planning for retirement.

The Senate Special Committee on Aging developed a table showing the cumulative IRA account value assuming annual contributions of $2,000 with interest rates of 8%, 10%, and 12%. The purchasing power of the 1981 IRA dollar was then determined using inflation rates of 5%, 7%, and 9%. For example, if one were to assume that the IRA account would earn interest at 10% a year over the 20-year period while inflation was 7%, the IRA account value in 1981 dollars would be $28,981. This is determined by multiplying the $126,005 accumulated in the account by the year 2002 by 23%. This is shown in the following table.

TABLE 2. Cumulative total of an IRA account, assuming deposit of $2,000 on Jan. 1, 1982, and every January 1st thereafer with interest payment rates of 8, 10, and 12%, and Purchasing Power of the 1981 Dollar with Inflation Rates of 5, 7, and 9% (Rounding after computation)

End of year:	Cumulative IRA account Interest earnings rate 8%	10%	12%	Purchasing power of 1981 dollar at: Inflation rate 5%	7%	9%
1	2,160	2,200	2,240	.95	.93	.91
2	4,493	4,620	4,749	.90	.87	.83
3	7,012	7,282	7,559	.86	.80	.75
4	9,773	10,210	10,706	.82	.75	.69
5	12,672	13,431	14,230	.77	.70	.62
6	15,846	16,974	18,178	.74	.65	.57
7	19,273	20,872	22,599	.70	.60	.52
8	22,975	25,159	27,551	.66	.56	.47
9	26,973	29,875	33,097	.63	.52	.43
10	31,291	35,062	39,309	.60	.48	.39
11	35,954	40,769	46,266	.57	.45	.35
12	40,991	47,045	54,058	.54	.42	.32
13	46,430	53,950	62,785	.51	.39	.29
14	52,304	61,545	72,559	.49	.36	.27
15	58,649	69,899	83,507	.46	.34	.24
16	65,500	79,089	95,767	.44	.31	.22
17	72,900	89,198	109,499	.42	.29	.20
18	80,893	100,318	124,879	.40	.27	.18
19	89,524	112,550	142,105	.38	.25	.17
20	98,846	126,005	161,397	.36	.23	.15
21	108,914	140,806	183,005	.34	.22	.14
22	119,787	157,086	207,206	.32	.20	.13
23	131,530	174,995	234,310	.31	.19	.11
24	144,212	194,694	264,668	.29	.18	.10
25	157,909	216,364	298,668	.28	.16	.10
26	172,702	240,200	336,748	.26	.15	.09
27	188,678	266,420	379,398	.25	.14	.08
28	205,932	295,262	427,166	.24	.13	.07
29	224,566	326,988	480,665	.23	.12	.07
30	244,692	361,887	540,585	.22	.11	.06
31	266,427	400,276	607,695	.20	.11	.05
32	289,901	442,503	682,859	.19	.10	.05
33	315,253	488,953	767,042	.18	.09	.05
34	342,634	540,049	861,327	.18	.09	.04
35	372,204	596,254	966,926	.17	.08	.04
36	404,141	658,079	1,085,197	.16	.07	.03
37	438,632	726,087	1,217,661	.15	.07	.03
38	475,882	800,896	1,366,020	.14	.06	.03
39	516,113	883,185	1,532,183	.14	.06	.03
40	559,562	973,704	1,718,285	.13	.06	.02
41	606,487	1,073,274	1,926,719	.12	.05	.02
42	657,166	1,182,801	2,160,165	.12	.05	.02
43	711,899	1,303,282	2,421,625	.11	.04	.02
44	771,011	1,435,810	2,714,460	.11	.04	.02
45	834,852	1,581,591	3,042,435	.10	.04	.01

SOURCE: U.S. Senate, Special Committee on Aging.

Advantages of Tax-Sheltered Savings

To determine the advantages of a tax-sheltered IRA over a non-tax-sheltered savings account, a computation was made of the amounts that would be accumulated in each account adjusted back to 1982 for inflation. The amount accumulated in a tax-sheltered IRA was then compared to the amount that would be accumulated in a regular savings account where the interest would be taxed. The amounts in parentheses are the amounts accumulated in a regular savings account after adjusting the account balance for taxes that would be paid on the interest earned. It should be remembered that withdrawals from an IRA will be taxed as ordinary income whereas withdrawals from a savings account will not.

TABLE 3. Retirement savings contributions: a comparison between tax-sheltered and non tax-sheltered accounts

	Accumulated Account Value in 1982 Dollars 1/			
Number of	Annual Contribution			
Years Saved	500	1,000	1,500	2,000
10	3,382	6,764	10,146	13,528
	(2,955)	(5,910)	(8,864)	(11,818)
20	5,466	10,932	16,399	21,866
	(3,973)	(7,946)	(11,916)	(15,887)
30	7,645	15,290	22,934	30,579
	(4,569)	(9,138)	(13,694)	(18,250)
40	10,250	20,500	30,750	41,000
	(5,096)	(10,192)	(15,243)	(20,289)

1/ Individual was assumed to be a single worker retiring with an income of $20,000 in 1982 dollars. Assumptions for wage growth, interest, and inflation were based on Data Resources, Incorporated Cycle Long Forecast and Social Security statistics. Interest averaged 9.6% and inflation averaged 7.6% over the 40-year period.

It should be noted that the relative value of fixed annual contributions shown in Table 2 diminishes over time as wages and inflation increase. This is due to the declining real value of the contributions over time. If Congress were to adjust periodically the IRA contribution limits and individuals saved the same percentage of earnings, the account values would be significantly higher -- particularly after 30 to 40 years of systematic savings. Nonetheless, the advantages of a tax-deferred IRA are obvious.

Do IRAs Chiefly Benefit the Higher-Paid?

Proposals to increase the IRA contribution limits or to permit individuals already covered to also save for retirement through an IRA were generally not endorsed by the Carter Administration. The chief reason cited by the Treasury Department and other critics was the potential greater utilization of an expanded program by high income earners. In this regard the Treasury Department under President Carter produced the following table on IRA utilization, which shows that for those with $50,000 or more income, over half of those eligible are estimated to utilize an IRA, whereas the overall utilization rate of individuals with income below $20,000 was less than 5%.

TABLE 4. Individual Retirement Accounts, 1977: estimate of utilization rate by income class

Adjusted gross income class	Number of returns with salaries and wages 1/	Estimated number of taxpayers with salaries and wages 2/	Estimated number of taxpayers eligible to use IRAs 3/	Estimated number of IRAs 4/	Utilization rates
($000)	.............(Numbers in million		..........)		(....percent....)
0 - 5	20.1	20.7	17.6	0.04	0.2%
5 -10	16.5	19.0	13.3	0.18	1.4
10-15	13.0	17.5	10.5	0.35	3.3
15-20	10.7	16.3	7.4	0.40	5.4
20-50	15.8	24.9	6.2	1.35	21.8
50 and over	1.1	1.4	0.4	0.21	52.5
Total	77.2	99.8	55.4	2.53	4.6%

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Mar. 27, 1979.

1/ Unpublished data from 1977 tax returns.

2/ Includes two spouses when both have salaries and wages.

3/ Excludes persons covered by public or private retirement systems.

4/ Allows for two individual retirement accounts on some returns. Based on number of Forms 5329 filed. Some of these accounts received no deductible contributions during 1977.

Some critics argue that IRAs have failed to generate new retirement savings and that its only significant effect has been to provide a tax haven for upper income taxpayers. The advantages of utilizing an IRA are substantial, since the tax liability on income contributed and investment income is deferred so far into the future that it has nearly a zero present value in many cases. This in turn serves to reduce Federal revenues and undermines the progressivity of the graduated income tax.

However, about 31% of all IRA contributors in 1979 had adjusted gross incomes under $20,000. These taxpayers contributed about one-quarter of the $3.2 billion payments made to IRAs in 1979. When income up to $30,000 is considered, these taxpayers account for about 57% of all active IRA accounts and are responsible for about half of all IRA contributions. The following table shows the distribution of IRA contributions and the average payment made in 1979 by adjusted gross income class. Beginning with 1982, all individuals are eligible to contribute to an IRA.

TABLE 5. Payments to individual retirement arrangement for 1979

Adjusted gross income	Number of returns	%	Amount (in thousands)	%	Average 1/ payment=
$ under $ 10,000	190,380	7.7	$142,119	4.4	$ 747
10,000 under 15,000	266,182	10.8	282,109	8.8	1,060
15,000 under 20,000	304,608	12.3	370,222	11.5	1,215
20,000 under 25,000	327,043	13.3	402,866	12.5	1,232
25,000 under 30,000	310,709	12.6	409,494	12.7	1,318
30,000 under 50,000	736,437	29.8	1,059,708	32.9	1,439
50,000 under 75,000	214,118	8.7	348,549	10.8	1,628
75,000 under 100,000	61,515	2.5	106,326	4.0	1,728
100,000 or more	56,273	2.3	102,170	3.2	1,816
Total	2,467,265	100	$3,223,565	100	$1,307

SOURCE: Statistics of Income, Vol. 1, No. 1, Summer 1981,

Department of the Treasury, Internal Revenue Service.

1/ Includes joint returns where both spouses contributed to his or her own IRA. In other words, each spouse could contribute $1,500 to his or her own IRA, but the contribution would show up as $3,000 on the joint tax return.

How Does Our IRA Experience Compare to Canada's?

Proponents of expanding tax incentives stress the need for increased savings and capital formation and point to the favorable participation rates among Canadians in their Registered Retirement Savings Program (RRSP) on which the IRA program was modeled. While the Canadian RRSP program dates back to 1957, the Individual Retirement Arrangements available in the United

States have had a more recent and more modest beginning. When the RRSP program first began in Canada, the contribution limit was set at $2,500. Furthermore, in Canada, covered workers have always been eligible to establish an RRSP -- but at a lower contribution level. At present, Canadian nonparticipants in an employer-sponsored pension plan -- whether employees or self-employed -- may contribute 20% of earned income up to a maximum contribution of $5,500 per year. (This also applies to a pension plan member whose employer does not contribute on his behalf in any year.) Employees who belong to a non-contributory pension plan are permitted to contribute only the lesser of 20% of earned income or $3,500 into an RRSP. But if they belong to a contributory plan, that amount is reduced by their pension plan contributions -- together they cannot exceed $3,500.

In 1976 over 60% of all contributors in the Canadian RRSP program had income below $20,000. However, they accounted for only 40% of all retirement contributions. Following is a comparison of retirement savings participation rates among moderate income taxpayers in the U.S. and Canada. While the comparative years are different it nonetheless illustrates the higher Canadian participation rates among moderate income tax payers.

	Participation Rates	
Income Class	IRA (1979)	RRSP (1976)
$10,000-14,999	10.8	23.4
$15,000-19,999	12.3	23.6

The higher RRSP utilization rate may be attributable not only to a greater awareness among Canadians because of the age of the RRSP program, but also to the absence of tax penalties for premature withdrawals. Since a 10% penalty tax is assessed by IRS for withdrawals from an IRA before age 59-1/2 (unless the individual dies or becomes disabled), low and moderate earners may be reluctant to make a long term commitment to retirement savings. Higher income individuals, on the other hand, not only have greater incentives to save because of their higher marginal tax rates, but are also more likely to have additional resources at their disposal should they need money prior to retirement. In Canada one can always draw from his RRSP should he need additional money or wish to terminate his Registered Retirement Savings Plan. It does not matter how long the money has been set aside or at what age the individual withdraws funds. Rather than assessing a tax penalty for withdrawal prior to retirement, the Canadian Government offers an incentive for the individual to keep the money in the RRSP by permitting him to receive the first $1,000 of annuity benefits tax free.

Public Response to IRAs

A July 7, 1982 study released by the Life Insurance Marketing and Research Association, Inc. of a national sample of 5,000 households showed that 33% of all households eligible to open Individual Retirement Accounts will do so for the 1982 tax year and 17% have already done so in the first quarter of 1982. The national consumer study, based on IRA activity for the first quarter of 1982, reveals that 89% of those eligible to open IRAs are aware of their eligibility. It reveals also that IRA purchase activity is greatest among the 45-64 age group, particularly when annual incomes are $30,000 and more. IRA purchase activity is highest among household heads 55 years or older and among this group, the higher the income, the more likely the individual reported a purchase or an intent to purchase. For individuals 55 years and older with incomes between $15,000 to $24,999, 24% have already made an IRA purchase and another 12% intend to do so. In this same age category, among those with $50,000 and more of income, the purchase rate was at 48% with another 21% expressing an intention to purchase.

Why must contributions be withdrawn at age 70-1/2?

Since the purpose of an IRA is for retirement savings, an individual who withdraws his retirement savings too early or too late will be subject to penalties. Because the tax law contemplates that an individual will begin drawing on his retirement account before he reaches age 70-1/2, and in order to encourage the use of the account for retirement purposes, a substantial excise tax is imposed in any year in which the individual receives "inadequate" distributions. The tax is 50% of the amount by which the minimum required distributions exceed the distributions actually received. This penalty was considered necessary to prevent IRA plans from being used to postpone tax indefinitely and is analogous to provisions regarding distributions from Keogh plans for the self-employed.

The individual's entire interest in his account must be distributed to him not later than the end of the taxable year during which he attains age 70-1/2 or distributed over any of the following periods (or a combination of them): (a) the life of the individual, (b) the joint life and last survivor expectancy of the individual and his spouse, (c) a period certain (e.g., 10 years) not extending beyond the life expectancy of the individual, or (d) a period certain not extending beyond the joint life and last survivor expectancy of the individual and his spouse. The minimum distribution that must be made each year is obtained by dividing the individual's entire interest as of the beginning of the year by his life expectancy (or joint lives, if applicable) determined as of the date the individual reached age 70-1/2, reduced by the number of whole years that have elapsed since he reached that age.

The requirement to withdraw sufficient sums beginning at age 70-1/2 may not be as onerous as some may suggest. The money does not all have to be withdrawn at once; rather, the withdrawal of a sufficient amount must begin. A white male age 70 is expected to live another 11.1 years; a white female 14.8. As noted above, the withdrawal could be made over the joint life expectancies of the husband and wife.

Legislation has been introduced in the House by Mr. Erlenborn (H.R. 4330) and in the Senate by Mr. Nickles (S. 1591) which would remove the age 70-1/2 restriction on contributions to IRAs and raise from 70-1/2 to 75 the age at which distributions must commence. No provision has been made, however, for Keogh plans.

Tax Deduction versus Tax Credit

Some proponents of tax incentives for retirement savings feel that the incentive should be in the form of a tax credit rather than a tax deduction. Tax credits affect all taxpayers equally -- dollar for dollar -- rich or poor, since their value does not fluctuate depending on the taxpayer's marginal tax bracket.

Tax credits are subtracted from a taxpayer's tax liability whereas tax deductions are subtracted from gross income in determining taxable income before the tax is computed. The net result is that for each dollar of tax credit a taxpayer's tax liability is reduced $1. Deductions reduce a taxpayer's tax liability but only by a percentage of the deduction. The percentage is dependent upon the marginal tax bracket of the taxpayer. This is to say that an individual in the 32% tax bracket would receive a reduction in taxes equal to $32 for each $100 deduction. Likewise, an individual in the 48% tax bracket would receive a reduction in taxes of $48 for each $100 deduction. Hence, the same $100 worth of deduction is worth different amounts to different taxpayers depending on their marginal tax bracket. Since a tax credit would reduce tax liability dollar for dollar, a tax credit of $100 would reduce tax liability by $100 for all taxpayers.

It has also been suggested that rather than using tax deductions or credits for retirement savings incentives, a direct subsidy from the Federal Government for funds held in a retirement savings account could be a similar incentive. The subsidy could be in the form of extra interest paid by the Government on all funds held in qualified IRAs. It is suggested that since the IRA subsidy would be an annual outlay in the Federal budget, it would make the expense of the incentive far more visible than that of the current deduction or the proposed credit.

Should IRAs be permitted to invest in "collectibles?"

IRAs may be established by individuals themselves or by employers, labor unions, and other employee associations. The IRA can be maintained with a bank, credit union, or savings and loan association, with insurance companies or mutual funds, and through the purchase of special U.S. retirement bonds issued under the Second Liberty Bond Act. In order to provide investment flexibility, an individual is permitted to shift his investment in one type of individual retirement plan to another plan without tax liability.

Individuals may generally self-direct IRA investments or investments under an account in a qualified plan. Self-directed investments, however, may no longer be made in "collectibles" (e.g., gold, diamonds, antiques, stamps, paintings, etc.). Section 314(b) of the Economic Recovery Tax Act of 1981 treats amounts invested in collectibles under self-directed accounts in IRA or Keogh plans as distributions for income tax purposes. This effectively precludes collectibles as an investment alternative.

Several reasons are suggested for this prohibition. One reason is that the expansion of IRA accounts was intended to stimulate investment in income producing assets, or productive investment. Secondly, an enforcement problem exists. IRA (and Keogh) assets may not be used prior to retirement without incurring a tax penalty. It is alleged, however, that individuals are using retirement plans to buy paintings or antiques to decorate their homes and offices. Another reason is that it might be considered wise to discourage individuals from making highly speculative investments in collectibles when funds are designed for retirement security.

Others argue that individuals should be allowed tax benefits for whatever retirement investments they feel are most desirable. In this regard, Mr. Moynihan introduced S. 1645 which would let funds in IRAs to be used to purchase collectibles. (See floor statement, Congressional Record, daily ed., Sept. 18, 1981: S10040.)

William Raby, a CPA with Touche Ross & Co., has pointed out that it is not generally wise to include collectibles in an IRA in any case because the value rises tax free outside the plan and the return on collectibles is subject to preferential capital gains tax which reduces the tax burden in any case (Wall Street Journal, Aug. 19, 1981: 1).

LEGISLATION

H.R. 191 (Downey)

Amends the Internal Revenue Code of 1954 to allow the deduction for contributions to individual retirement savings even though the taxpayer is an active participant in a pension plan and to require the Secretary of the Treasury to provide, with the instructions for completing individual income tax returns, simple-language explanation of the requirements and benefits of such deduction. Introduced Jan. 5, 1981; referred to Committee on Ways and Means.

H.R. 646 (Whitehurst)

Amends the Internal Revenue Code of 1954 to allow the deduction of up to $5,000 for individual retirement savings. Introduced Jan. 5, 1981; referred to Committee on Ways and Means.

H.R. 1250 (Moore)/S. 243 (Chafee)

Amends the Internal Revenue Code of 1954 to increase the allowable contributions to individual retirement plans to $2,000, and to allow employees a deduction of up to $2,000 for voluntary contributions to employer-sponsored retirement plans if the plan so permits. Permits additional voluntary non-deductible contributions of $2,000 per year plus an additional $8,000 over the employee's lifetime to either an IRA or an employer-sponsored plan, thereby increasing the size of the account so that the expense of managing and promoting such savings will be more easily absorbed. Permits employees to withdraw without penalty up to $10,000 from the account in order to purchase a first home or to pay for the higher education of children. H.R. 1250 introduced Jan. 23, 1981; referred to Committee on Ways and Means. S. 243 introduced Jan. 23, 1981; referred to Committee on Finance.

H.R. 1316 (Gibbons)

Amends the Internal Revenue Code of 1954 to allow individuals a 50% credit for retirement savings and to otherwise encourage, expand, and simplify independent savings. Introduced Jan. 27, 1981; referred to Committee on Ways and Means.

H.R. 1397 (Green)

Encourages savings and capital formation by offering a bonus payment to modest-income people who purchase certain savings certificates or make certain investments. Introduced Jan. 28, 1981; referred to Committee on Banking, Finance and Urban Affairs.

H.R. 1641 (Ferraro)

Amends the Employee Retirement Income Security Act of 1974 to provide greater protection to women under private pension plans and amends the

Internal Revenue Code of 1954 to permit a married individual who has no compensation or whose compensation is less than that of the individual's spouse, the maximum deduction for individual retirement arrangements. Introduced Feb. 4, 1981; referred jointly to Committee on Ways and Means, and Education and Labor.

H.R. 2882 (Erlenborn)
Amends the Internal Revenue Code of 1954 to increase IRA deductible limit to $2,000, removes the 15% of earned income limit, and permits a deduction within the $2,000 limit for voluntary or mandatory contributions to employer-sponsored pension and savings plans, permits all employees to split their contributions to pay up to $1,000 into a spousal IRA regardless of spousal earnings, and removes the age 70 restriction on IRA contributions. Introduced Mar. 26, 1981; referred to Committee on Ways and Means.

H.R. 2884 (Gilman)
Amends the Internal Revenue Code of 1954 to increase IRA deductible limit to $2,500, increases spousal IRA contribution limit to $3,000, allows deductions for contributions under employer plans, and provides for inflation adjustments to contribution limits. Introduced Mar. 26, 1981; referred to Committee on Ways and Means.

H.R. 2968 (Petri)

Amends the Internal Revenue Code of 1954 to encourage savings by allowing individuals to elect a credit against income tax for interest and dividends received, by increasing the maximum deduction for contributions to individual retirement plans, and by allowing the employees to deduct voluntary contributions to employer retirement plans, and to provide for the payment of bonus interest with respect to investments in individual retirement plans which have been held for more than 7 years. Introduced Apr. 1, 1981; referred to Committee on Ways and Means.

H.R. 3082 (Guarini)

Amends the Internal Revenue Code of 1954 to increase to $7,500 the maximum deduction for contributions to retirement savings. Introduced Apr. 7, 1981; referred to Committee on Ways and Means.

H.R. 3395 (Pepper)

Amends the Internal Revenue Code of 1954 to allow individuals a 50% refundable income tax credit for retirement savings, to provide for adjustments to the limitations on such credit to reflect inflation, and to otherwise encourage, expand, and simplify independent individual savings for retirement. Introduced May 1, 1981; referred to Committee on Ways and Means.

H.R. 3631 (Trible)

Provides for computation of tax deduction for payments to retirement savings on basis of spousal compensation. Introduced May 19, 1981; referred to Committee on Ways and Means.

H.R. 3908 (Sawyer)

Amends the Internal Revenue Code of 1954 to increase the limitations on the deduction for individual retirement savings to $5,000, spousal IRAs to $7,500, and to allow individuals covered by employer plans to qualify for such deduction. Introduced June 11, 1981; referred to Committee on Ways and Means.

H.R. 4330 (Erlenborn)/S. 1541 (Nickles)

Proposed Retirement Income Incentives and Administrative Simplification Act of 1981. Permits a tax deduction for retirement savings up to $2,000 a year for all workers. Employees would be permitted a tax deduction for voluntary or mandatory contributions to an employer-sponsored pension and savings plan. Removes the age 70-1/2 restriction on contributions to IRAs and raises from 70-1/2 to 75 the age at which distributions from an IRA must commence. Also establishes a single agency (Employee Benefit Administration) to administer Federal regulation of employee pension and welfare benefit plans, eliminate ERISA paperwork and administrative obstacles, simplify pension plan integration with social security, and restructure the ERISA single-employer plan termination insurance provisions. Introduced June 30, 1981; referred jointly to Committees on Education and Labor, and Ways and Means.

H.R. 4418 (Archer)

Allows IRAs to invest in collectibles. Introduced Sept. 9, 1981; referred to Committee on Ways and Means.

H.R. 4701 (LaFalce)

Allows individuals a credit against income tax for 50% of their contributions to retirement savings. Introduced Oct. 6, 1981; referred to Committee on Ways and Means.

H.R. 5440 (Erdahl)

Increases age by which distributions from certain retirement plans must begin. Introduced Feb. 4, 1982; referred to Committee on Ways and Means.

H.R. 5547 (Duncan)

Amends the Internal Revenue Code of 1954 to provide that individual retirement accounts may be used as security on a loan used to purchase a residence by a first-time home buyer or to purchase an automobile. Introduced Feb. 22, 1982; referred to Committee on Ways and Means.

H.R. 5571 (Schulze)

Permits personal, lifetime deduction for each $10,000 contributed to IRA regardless of earned income and permits withdrawals for first-time homebuyers. Introduced Feb. 23, 1982; referred to Committee on Ways and Means.

S. 1139 (Jepsen)

Provides for automatic adjustment of deduction to individual retirement accounts. Introduced May 7, 1981; referred to Committee on Finance.

S. 1319 (Bradley)

Amends the Internal Revenue Code of 1954 to provide for individual and corporate income tax reductions. Title III expands the availability of tax deductions for employee contributions to IRAs and qualified retirement plans.

The deduction limits would be $2,000 annually or $1,000 for active participants in employer plans. Deductions would not be allowed for mandatory employee contributions. Contribution limits to SEPs and Keogh plans would be increased to $15,000. Terminates cost-of-living adjustments made to contribution and benefit limits under corporate pension plans. Introduced June 3, 1981; referred to Committee on Finance.

S. 1583 (Jepsen)

Amends the Internal Revenue Code of 1954 to provide a deduction for contributions made by a taxpayer to an individual retirement plan for the benefit of a nonsalaried spouse. Introduced July 31, 1981; referred to Committee on Finance.

S. 1645 (Moynihan)

Permits funds in individual retirement accounts be used to purchase collectibles. Introduced Sept. 18, 1981; referred to Committee on Finance.

S. 2161 (Grassley)

Permits a married person filing a joint return to deduct certain payments made to an IRA for nonworking spouse. Introduced Mar. 2, 1982; referred to Committee on Finance.

S. 2536 (Dixon)

Amends the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940 to include individual and self-employed retirement plans as exempted securities. Introduced May 18, 1982; referred to Committee on Banking, Housing, and Urban Affairs.

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----- Hearings held on S. 12, providing for certain employee retirement savings contributions, S. 24, allowing a deduction of amounts deposited in education and housing savings accounts, and S. 243, allowing all people with earned income to establish and to increase the maximum tax deductible contribution to an individual retirement account. Hearing, 97th Congress, 1st session. Feb. 24, 1981. not yet printed

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Trible introduces Homemaker Retirement Act with 118 cosponsors. Remarks of Mr. Trible in the House of Representatives. Congressional record daily ed. v. 127, May 19, 1981: H2317-H2318.

Use of Individual Retirement accounts. Remarks of Mr. Moynihan in the Senate. Congressional record daily ed., v. 127, Sept. 18, 1981: S10040.

U.S. Congress. Senate. Special Committee on Aging. A guide to Individual Retirement Accounts (IRA's). Washington, U.S. Govt. Print. Off., 1981. 9 p.
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CHRONOLOGY OF EVENTS

04/30/82 -- Department of the Treasury Fiscal Service announces it will no longer offer U.S. Retirement Bonds and terminates governing regulations.

08/13/81 -- President Reagan signed the Economic Recovery Tax Act of 1981 (P.L. 97-34).

08/04/81 -- House agreed to conference report on H.R. 4242.

08/03/81 -- Senate approved conference report on H.R. 4242.

07/29/81 -- Retirement savings provisions of H.R. 4242 passed by House of Representatives and H.J.Res. 266 passed by Senate.

07/21/81 -- Senate adopted amendment offered by Mr. Heinz to direct the Secretary of the Treasury to conduct a study of various savings incentives for retirement.

07/17/81 -- Senate adopted amendment offered by Mr. Grassley to allow widowed and divorced spouses to continue to contribute to their own IRAs. Also adopted an amendment offered by Mr. Specter increasing amount of compensation which may be taken into account under a Keogh plan to $200,000.

07/16/81 -- Ways and Means Committee adopted a provision authored by Mr. Gradison to increase the maximum amount of compensation which may be used to determine contributions or benefits in a Keogh plan from $100,000 to $200,000.

06/25/81 -- Senate Finance Committee ordered favorably reported H.J.Res. 266, a resolution to provide for a temporary increase in the public debt limit, with the committee tax reduction bill as an amendment in the form of a substitute (Press release no. 81-21).

06/24/81 -- Ways and Means Committee held markup on retirement savings provisions of the tax reduction bill (H.R. 3849).

06/23/81 -- Senate Finance Committee approved several provisions of the tax reduction bill (H.R. 3849) dealing with expanded incentives for retirement savings (Press release no. 81-18.).

02/24/81 -- Subcommittee on Savings, Pensions, and Investment Policy of the Senate Finance Committee concluded hearings on S. 12, providing for certain employee retirement savings contributions, S. 24, allowing a deduction of amounts deposited in education and housing savings accounts, and S. 243, allowing all people with earned income to establish and to increase the maximum tax deductible contribution to an individual retirement account.

08/21/80 -- Senate Finance Committee ordered reported H.R. 5829 (tax cut provisions) increasing amount that may be contributed to IRA and authorizing the establishment of LERAs. (Limited Employee Retirement Accounts).

04/03/80 -- Hearing was held before the Subcommittee on Private Pension Plans and Employee Fringe Benefits of the Senate Finance Committee on employee contributions to IRAs and other pension plans.

11/06/78 -- President Carter signed the Revenue Act of 1978 (P.L. 95-600) into law providing for the establishment of Simplified Employee Pensions (SEPs).

10/04/76 -- President Ford signed the Tax Reform Act of 1976 (P.L. 94-455) into law providing for the establishment of spousal IRAs.

09/02/74 -- President Ford signed the Employee Retirement Income Security Act of 1974 (P.L. 93-406) into law providing pension reform and authorizing the establishment of Individual Retirement Accounts (IRAs).

12/08/71 -- President Nixon sent message to Congress transmitting recommendations for private pension reform, including a proposal to permit employees to save independently for their retirement or to supplement employer-financed pensions.

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