

MEMO# 2603

March 13, 1991

BENTSEN-ROTH IRA BILL INTRODUCED

- 1 - March 13, 1991 TO: MEMBERS - ONE PER COMPLEX NO. 12-91 PENSION MEMBERS NO. 10-91 RE: BENTSEN-ROTH IRA BILL INTRODUCED

Yesterday Senators Bentsen and Roth introduced S. 612, the Savings and Investment Incentive Act of 1991. The bill was introduced with 72 Senate co-sponsors. A companion bill, H.R. 1406, was introduced in the House of Representatives. Effective for 1991, the bill would restore the universal income tax deduction for IRA contributions. All working individuals, regardless of their income level or coverage by other retirement plans would be eligible to make a \$2000 deductible IRA contribution. The limit on IRA contributions would be indexed for inflation in \$500 increments. In addition, the bill would create a "Special IRA" under which contributions would not be deductible; however, earnings on amounts remaining in the account for at least five years could be withdrawn tax-free. Earnings derived from "Special IRA" contributions held for less than five years would be subject to income tax and a 10 percent penalty upon withdrawal. Individuals could contribute the full \$2000 to either a deductible IRA or to a "Special IRA" or could allocate the \$2000 between the two accounts (e.g., \$500 to a deductible IRA and \$1500 to a Special IRA). However, "Special IRA" contributions could not be commingled with other IRAs. Finally, the bill would permit penalty-free IRA withdrawals for first-time home purchases, education expenses and catastrophic medical expenses. These withdrawals could be made for the benefit of the IRA owner or the children or grandchildren of the IRA owner. Penalty-free withdrawals from 401(k) and 403(b) plans would also be permitted under the bill for first home purchases and education expenses. - 1

- Attached are a copy of S. 612, a summary of the bill prepared by Senator Bentsen's staff and the Congressional Record statement. We will keep you informed of developments. W. Richard Mason Assistant Counsel - Pension Attachments