

MEMO# 6566

January 16, 1995

NEW ROTH-BREAUX IRA BILL INTRODUCED IN SENATE

January 16, 1995 TO: BOARD OF GOVERNORS No. 9-95 FEDERAL LEGISLATION COMMITTEE
No. 3-95 FEDERAL LEGISLATION MEMBERS No. 3-95 MEMBERS - ONE PER COMPLEX No.
5-95 GOVERNMENT AFFAIRS IRA ISSUES GROUP RE: NEW ROTH-BREAUX IRA BILL
INTRODUCED IN SENATE

On January 4, Senators William Roth and John Breaux introduced a new version of their 1994 bill designed to restore the universal availability of a fully tax deductible Individual Retirement Account. The bill is S.12, the "Savings and Investment Incentive Act of 1995." Like the 1994 bill, S.12 will permit a choice between tax-deductible contributions to a traditional IRA, or contributions to a new type of IRA, called an IRA Plus Account, under which contributions are not deductible, but earnings will not be subject to income or penalty taxes when withdrawn if they are allocable to contributions held in the IRA for at least five years. The bill contains provisions on converting existing IRAs into IRA Plus Accounts. The bill will also permit non-wage-earning spouses to make a \$2,000 contribution to either kind of IRA. S.12 will waive the 10% penalty tax on early withdrawals (generally those before 59½ for the front-loaded IRA or within the 5 year period for the new back-loaded IRA) if the funds are used for higher education expenses, first-time home purchases, financially devastating medical expenses, and during periods of long unemployment. Similar penalty-free withdrawal provisions will apply to 401(k) plans and 403(b) plans. A major difference between S.12 and the 1994 bill is that only beginning in 1999 would tax deductible IRAs be available regardless of income. Until then, the present income ceilings on eligibility for fully deductible IRAs applicable to individuals covered by other retirement plans would be increased each year as follows: Individuals Couples Present law \$25,000 \$40,000 1995 \$50,000 \$65,000 1996 \$75,000 \$90,000 1997 \$100,000 \$115,000 1998 \$125,000 \$140,000 1999 and after no limit no limit Further, under S.12 an individual's eligibility for a fully deductible IRA would be determined without regard to whether his or her spouse is covered by another retirement plan, and the IRA deduction limit would be integrated through a "last-dollar" set-off with the elective deferral limit for 401(k) plans, 403(b) plans, and salary reduction SEPs. It is expected that a comparable bill will be introduced in the House of Representatives in the near future by Congressman William Thomas. A copy of the bill and Congressional Record statement is attached. We will keep you informed of further developments. Julie Domenick Senior Vice President Legislative Affairs Attachments

should not be considered a substitute for, legal advice.