

NEWS RELEASE

February 24, 1999

ICI Urges Simplified Rules and Universal Availability for IRAs, February 1999

ICI Urges Simplified Rules and Universal Availability for IRAs

Washington DC, February 24, 1999 - The traditional IRA and the new Roth IRA have encouraged many Americans to save for retirement. Both programs could be made more effective with simplified rules and universal availability, Investment Company Institute President Matthew P. Fink told the Senate Committee on Finance in [testimony](#) today.

Senate Finance Committee Chairman William Roth, Jr. (R-DE) convenes a hearing on increasing savings for retirement.

"Our long experience with savings vehicles teaches that simplicity is the key to success. That lesson should be kept in mind as Congress reevaluates the complex eligibility requirements for IRA and Roth IRA participation," said Fink in endorsing provisions of the soon-to-be-introduced "Retirement Savings Opportunity Act of 1999."

Specifically, Fink said the Institute strongly supports provisions in the "Retirement Savings Opportunity Act of 1999" that would:

- restore the simple, universal IRA,
- raise IRA and 401(k) contribution limits to account for inflation, and
- create "catch-up" rules that would allow Americans 50 years or older to make additional annual contributions to IRAs as well as employer-sponsored 401(k) plans.

Fink reminded the panel that when Congress introduced the universal deductible IRA in 1982, IRA contributions grew dramatically. However, when restricted IRA deductibility went into effect in 1987, the level of contributions fell sharply—and never recovered. The more complex rules discouraged even those still eligible for deductible IRAs; their participation rate dropped 40 percent and remains low today.

In contrast, noted Fink, the SIMPLE plan, easy to explain and inexpensive to establish and administer, has had strong interest and steady participation by its target population, small employers. The plan's success is significant, given the failure of previous policy initiatives to encourage small employers to offer their employees retirement plans.

Fink also endorsed raising IRA contribution limits to keep pace with inflation. The real value of IRAs has declined significantly over time; today's annual contribution level of \$2,000 was set in 1981. Today an inflation-adjusted IRA contribution would be about \$5,000. "The failure of the value of the IRA to keep pace with inflation has kept many Americans from

accumulating a level of savings that will provide a financially secure retirement," Fink said.

And Fink said a "catch-up" provision to allow Americans age 50 and over to make additional annual IRA and 401(k) contributions as other family financial obligations ease, "is an excellent idea, because it responds directly to the needs of today's workforce and the actual savings pattern of many Americans."

Helping Americans improve their retirement savings rate is particularly pressing in light of two demographic events, Fink noted. The first is the approaching retirement of the "Baby Boomers," who, recent studies indicate, have not adequately saved for retirement. The second is the steadily increasing American life span. Both trends will place a tremendous strain on the Social Security system, and make the role of personal savings and employer-sponsored plans vitally important in ensuring that individuals have the financial resources to support themselves in retirement.

"The challenge facing Americans today is to ensure that they prepare adequately for their financial needs in retirement," Fink said, noting that mutual funds play a significant part in helping Americans reach that goal.

Other members of the mutual fund industry also testified at the hearing: the [testimony](#) of Peter J. Smail, President of Fidelity Investments Institutional Retirement Services Company, focused on 401(k) plan provisions in the upcoming bill and the [testimony](#) of John J. McCormack, Jr., President of TIAA-CREF, focused on 403(b) plan provisions.

The Investment Company Institute is the national association of the investment company industry. Its members include mutual funds, closed-end funds, and unit investment trusts.