RETIREMENT IMPROVEMENTS AND SAVINGS ENHANCEMENTS ACT DISCUSSION DRAFT

SENATE FINANCE COMMITTEE RANKING MEMBER,
SENATOR RON WYDEN

The United States is facing a retirement savings crisis. According to the National Retirement Risk Index, about half of today's households will not be able to maintain their pre-retirement lifestyles once they stop working. In 2013, an estimated 60 percent of all households had no savings in defined contribution retirement plans from a current or former job – and the median IRA account balance was $25,438. However, contrast that with Government Accountability Office data that shows that in 2011, 2,000 to 5,000 taxpayers had aggregated IRA balances over $5 million, including Roth IRAs. The estimated fair market value of their Roth IRAs totaled $8 to 13 billion.

The Retirement Improvements and Savings Enhancements (RISE) Act would encourage retirement savings, provide fairness for "mega Roth IRAs," simplify the required minimum distribution rules and create anti-abuse rules relating to IRAs.

Title I – Encouragement of Retirement Savings
The discussion draft would make the Saver's Credit refundable so that those without any tax liability receive a benefit. The legislation also would require the credit amount be contributed directly to a tax-favored retirement plan, in essence making the credit more like a "matching contribution."

The discussion draft also would allow employers to make matching contributions to their 401(k) retirement plans on behalf of their employees who made student loan payments but were unable to afford to also contribute to their 401(k) plans. The bill also would repeal the maximum age for traditional IRA contributions, which would allow taxpayers to continue making traditional and Roth IRA contributions after age 70 ½.

Title II – Treatment of Roth IRAs/Minimum Required Distribution Rules
To address "mega Roth IRAs," the discussion draft would prohibit further contributions to a Roth IRA if the total value of an individual's Roth IRA generally exceeds $5 million. The bill also would require distributions of amounts over the cap.

To essentially "reinstate" the income limits on contributions to Roth IRAs and shut down so-called "back door" Roth IRAs, the discussion draft would eliminate Roth conversions, for both IRAs and employer-sponsored plans. The legislation also would eliminate stretch IRAs.

Under current law, participants are generally required to begin taking distributions from their retirement plan at age 70 ½ (the RMD rules). To simplify these rules, the discussion draft provides an exception from the RMD rules when a taxpayer's retirement savings is less than $150,000. The discussion draft also would increase the RMD age from 70 ½ to 71 in 2018. The age would be increased further to 72 in 2023, 73 in 2028 and, thereafter, would be adjusted in a manner proportional to increases in life expectancy. To harmonize the RMD rules, the bill also would apply the lifetime RMD rules to Roth IRAs.

Title III – Anti-abuse Rules Relating to IRAs
The discussion draft provides that no individual retirement account funds would be invested in assets acquired for less than fair market value. The legislation also would expand the statute of limitations for IRA noncompliance to six years to help IRS pursue valuation-related misreporting and prohibited transactions that may have originated outside the current statute's three year window. And the bill would modify the prohibited transaction rules to provide that an IRA owner cannot invest his IRA assets in a corporation, partnership, trust, or estate in which he has a 10% or greater interest.