The Savings Recovery Act

Retirement Plans

1. **End the marriage penalties in IRA income eligibility**
   Current Law:
   - The income limit for eligibility to make deductible IRA contributions is $65,000 (single) and $109,000 (married).
   - The income limit for eligibility to make deductible Roth IRA contributions is $120,000 (single) and $176,000 (married).

   Proposal:
   - **Increase the income limits for married filers eligible to make deductible IRA and Roth IRA contributions to $130,000 and $240,000 respectively to eliminate the marriage penalty.**

2. **Contribution Limits**
   Current Law:
   - The IRA annual contribution cap is $5000 ($10,500 for SIMPLE IRAs).
   - The annual employee contribution cap for employer-sponsored plans is $16,500 (the cap is adjusted annually for inflation, unlike the IRA limit).
   - The combined employer and employee contribution cap for employer-sponsored plans is $49,000.

   Proposal:
   - **Permanently increase IRA contribution limit to match the employee contribution limit to employer-sponsored plans.**
   - **Temporarily increase employee IRA and employer-sponsored plan contribution limit to $33,000 for three years.**
   - **Temporarily increase combined contribution cap to $65,500 for three years.**

3. **Catch Up Allowances**
   Current Law:
   - The catch-up annual contribution cap for IRAs is $1000 ($2,500 for SIMPLE IRAs)
   - The catch-up annual contribution cap for employer-sponsored plans is $5500.

   Proposal:
   - **Temporarily raise the cap for both IRA and employer-sponsored plans to $10,000 for three years.**
   - **Raise the IRA/SIMPLE IRA catch up limits to $5,500 and index the amount for inflation.**

4. **Required Minimum Distributions**
   Current Law:
   - Generally, upon turning 70.5 or retiring, participants must start taking distributions from their retirement plans as determined by Treasury actuarial tables.
   - Congress suspended the required minimum distribution for 2009.

   Proposal:
   - **Extend the suspension of the required minimum distribution for three years, through 2012.**

<u>**College Savings**</u>

1. **Make 529 Plan contributions eligible for the Saver's Credit**

   Current Law:
   - The Saver's Credit provides up to a $1,000 credit ($2,000 for joint filers) for voluntary contributions to retirement savings plans, but not to college savings plans.

   Proposal:
   - **Extend contributions to a college savings 529 Plan eligible for the Saver's Credit. This proposal is included in H.R. 1351 (Pomeroy/Tiberi).**

2. **Allow Multiple Changes in Investments in 529 Plans**

   Current Law:
   - Generally, 529 account owners may only adjust their investment allocation once a year, regardless of changes in market conditions or the economy over the course of a year.
   - In light of current economic conditions, the Treasury Department has temporarily allowed two changes per year for 2009.

   Proposal:
   - **Make permanent the opportunity to change the investment direction of their 529 plans twice a year. This proposal is included in H.R. 1351 (Pomeroy/Tiberi).**

<u>**Social Security**</u>

1. **Modify the Social Security Earnings penalty**

   Current Law:
   - Current law reduces Social Security benefits of seniors under full retirement age (66 for those currently ages 55-66) who earn income from work in excess of the exempt amount ($14,160 in 2009) at the rate of $1 for every $2 earned above the exempt amount.
   - Although benefit amounts are reduced in the short-run, benefits are increased at full retirement age to account for this reduction.

   Proposal:
   - **Double the Amount Seniors May Earn Without Losing Benefits** (from $14,160 currently to $28,230).

<u>**Capital Gains and Losses**</u>

1. **Capital Gains / Dividends Tax Relief**

   Current Law:
   - The tax rate on long term capital gains and dividends is up to 15 percent for individuals.

   Proposal:
   - **Suspend taxes for individual long term capital gains on the sale of equities purchased on or before December 31, 2011.**
   - **Suspend taxes on dividends received on or before December 31, 2011.**

2. **Capital Losses**

   Current Law:
   - A taxpayer can use up to $3,000 in capital losses to offset ordinary income per year; certain losses may be carried forward against future ordinary income.

   Proposal:
   - **Increase amount of capital loss allowable against ordinary income to $10,000; index limit to inflation.**

Pensions

1. **Adjustments to Smoothing Calculations**

   Current Law:
   - Under the Pension Protection Act (PPA), the value of a plan's assets may be "smoothed," meaning that unexpected gains or losses can be recognized over 24 months.
   - PPA requires, however, that the smoothed value of assets must be within 10% of the fair market value of assets (this is commonly known as "the 10% corridor").

   Proposal:
   - **Temporarily extend the 10% corridor to 20% for two years to soften the impact of historic losses incurred in 2008.**

2. **"Nine and Two Rule"**

   Current Law:
   - PPA requires that 2008 asset losses be amortized over seven years.

   Proposal:
   - **For 2009 and 2010, require only interest payments on 2008 losses and extend the seven year amortization of 2008 losses to nine years, so that 2008 losses would be fully funded, but only two years later that would otherwise be the case.**