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CHAIRMAN JIM SAXTON

PRESS RELEASE

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TAX AXE FALLING ON SENIOR INVESTORS

-- NEW STUDY ANALYZES REFORMS TO ALLEVIATE TAX BURDEN ON IRA AND 401(k) RETIREES OVER AGE 70 ½ --

WASHINGTON, D.C. – A new study showing the detrimental impact of current tax policy on millions of seniors' retirement assets was released today by Joint Economic Committee (JEC) Chairman Jim Saxton. The new JEC study, *The Taxation of Individual Retirement Plans: Increasing Choices For Seniors,* demonstrates how mandatory withdrawals from retirement plans in a falling stock market will force millions of seniors to reduce their IRA and 401(k) holdings much faster than expected. A prohibitive 50 percent federal excise tax is levied on retirement plan assets not withdrawn according to the federally mandated schedule.

"This new study explains a major threat to seniors' retirement security this year unless changes are made in Federal tax law," Saxton said. "I have long believed that mandating withdrawals from IRAs at age 70 ½, and 401(k)s after retirement, is counterproductive and biased against saving and investment. After all, the age threshold is arbitrary, and seniors should be allowed to continue holding their assets in retirement plans until they need them for medical and living expenses, as well as emergencies. I also believe that the current age threshold is discriminatory and unfair to seniors.

"Why force seniors to reduce their retirement plan assets at an age when they may need them most? The only answer is that the mandatory withdrawals are designed to trigger federal income tax payments. These tax payments erode the retirement funds of seniors when they are most vulnerable. Furthermore, an outrageous 50 percent federal excise tax is imposed on assets not withdrawn on schedule.

"This year the problem may be disastrous for many seniors. The IRS withdrawal formula is rooted in the market value of retirement assets at the end of the prior year, for example, 2001. If the stock market then falls, and the value of retirement assets is reduced by one-third or one half, this does not reduce the amount that must be withdrawn to avoid the 50 percent excise tax. The result is that retirement plan assets are depleted much faster by higher taxes, and the return on the withdrawn assets are now exposed to Federal taxes since they are outside the plan.

"I have proposed legislation for many years to address this counterproductive and discriminatory tax by repealing mandatory withdrawals on IRAs and rolled over 401(k)s. While I still think this is the best solution, the study also analyzes a range of other options available, most of which would at least shield millions of seniors from the calamity that faces them in tax year 2002," Saxton concluded.

For a copy of the study, *The Taxation of Individual Retirement Plans: Increasing Choices For Seniors*, please visit the JEC website at www.house.gov/jec.

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