



CONGRESS OF THE UNITED STATES

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Happy New Year To Middle-Income Families! Jan. 1st Marks New IRA Expansion

WASHINGTON, DC -- New Individual Retirement Account rules, taking effect Jan. 1, 1998, will benefit middle-income families by expanding IRA eligibility and penalty-free withdrawals, according to a **Joint Economic Committee (JEC)** [study](#) released today. The changes are part of the sweeping tax cuts enacted by Congress this summer, but they were largely overlooked because of the size of the tax bill. The new rules will provide tax benefits to millions of middle-income families in America, helping them save for retirement, college and home purchases, among other things.

"Not only will the expansion in IRA benefits allow families to amass a significant nest egg, but it will also promote economic growth. The next step is to strengthen IRA saving incentives by increasing the contribution limit above \$2,000," stated **JEC Chairman Jim Saxton (R-NJ)**. **Raising the contribution limit will yield two important benefits:**

- It will reduce the bias against saving that exists under current law, making the tax code fairer and more efficient. Studies have shown that reducing this bias can promote economic growth and productivity improvements that lead to higher wages and better living standards.
- The enhanced tax benefits will encourage families to increase their saving, allowing them to build a financially secure future.

"Millions of baby boomers will face retirement with terror unless they begin saving now," stated **JEC Member Mark Sanford (R-SC)**. "We can avoid a crisis by relying on the traditional American values of self-reliance and thrift. As this study shows, expanding IRA benefits will be especially helpful to middle-class families. Raising personal saving will result in greater economic growth and may be one of the most important steps that any Congress could take."

The \$2,000 contribution limit has been in place since 1981 and does not reflect economy-wide increases in prices and wages. Moreover, the \$2,000 limit does not reflect the fact that individuals may need to save more for retirement because of longer life expectancies, rising medical costs and the deterioration in the financial status of Social Security.

"Financial advisors across the nation claim that many Americans wait too long to begin investing in their retirement," said **JEC Member Thomas Ewing (R-IL)**. "Families are busy trying to make ends meet and can't afford to look too far down the road. The new IRA rules offer middle-income families tax benefits that encourage them to invest in their futures and to save for their current family needs at the same time. Additionally, expanding IRA benefits makes good economic sense because it enhances incentives to work, save and invest."

Because IRA expansion promotes economic growth and productivity improvements, all families will benefit even if they do not participate in IRA saving. Productivity improvements will particularly help low-income families who will see their incomes and living standards rise.

For a copy of this study, entitled "[Expanding IRA Benefits](#)," please contact the JEC at (202) 224-5171 or view its web site at <http://www.house.gov/jec>.

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