

# IRA Preservation Act of 2019

## IRAs play a critical role in securing Americans' retirement security

- Over 42 million, or 34 percent, of U.S. households have IRAs
- IRAs account for over a third of the nation's \$27 trillion in retirement savings
- For the over 40 percent of Americans who don't have access to a workplace retirement plan, IRAs are the only source of dedicated retirement savings available to them

## IRAs operate at severe disadvantages to employer-sponsored retirement plans

- IRAs are subject to many of the same complex rules as employer plans
- Yet individuals don't have the resources employer plans do to comply with those rules, and the complexity of the rules themselves discourages individual retirement savings
- Worse yet, there is much less government guidance for IRAs than for employer plans
- Facing complex rules with far fewer resources and insufficient government guidance, IRAs are prone to common, inadvertent errors
- GAO, for example, found that over the course of a single year mistakes in reporting IRA distributions affected an estimated 1.5 million individuals
- Similarly, the Treasury IG reported that approximately 300,000 individuals potentially contributed more than \$3.9 billion of unreported excess contributions to IRAs in 2006 and 2007
- Yet in stark contrast to employer plans, IRAs have no programs to correct most errors and are more likely to lose their tax qualification when errors do occur
- Trapped in a regulatory system that predictably produces frequent errors with no way to correct them, IRAs face penalties and the loss of tax qualification, which pose an unfair and unnecessary drain on a significant portion of the nation's retirement savings

## Legislation is urgently needed to correct the disadvantages burdening IRAs

- Addressing the inequities IRAs and individual IRA owners face will encourage retirement savings and incentivize compliance
- This proposal begins by requiring the government to provide plain language explanations that make IRAs user-friendly for ordinary Americans and less prone to inadvertent errors
- Next it establishes a correction program to encourage IRA owners and providers to educate themselves and voluntarily correct mistakes they discover in exchange for reduced sanctions
- The correction program will be available to correct the most common mistakes — failures to take required minimum distributions and making excess contributions
- The proposal also expands the IRS Employee Plans Compliance Resolution System to provide a 180-day grace period for taking required distributions and to permit IRA providers to correct certain errors
- In addition, the proposal equalizes the treatment of IRAs with employer plans by:
  - Eliminating the 10% additional tax on early withdrawals of earnings on excess contributions to IRAs
  - Removing the potential loss of tax qualification by IRAs to allow individuals to preserve their retirement savings
  - Providing individual IRA owners peace of mind by starting the statute of limitations on the filing date of their 1040 individual income tax returns