News from Senator

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DOLE PROPOSAL TO LIBERALIZE RETIREMENT RULES ACCEPTED

WASHINGTON -- On Thursday, August 21, the Senate Finance Committee agreed to a proposal strongly advocated by Senator Bob Dole (R.-Kansas) which would allow participants in qualified retirement plans to deduct up to $1,000 per year for contributing to their plan or to an Individual Retirement Account. Under present law only persons not covered by a qualified retirement plan may take a tax deduction for contributions to an IRA. The proposal was approved as part of the tax package passed 19-1 by the Senate Finance Committee.

This new provision would give all employees an incentive to save for their own retirement.

In addition, the deduction limits for IRA's would be increased generally from $1500 to $1750, ($2000 for plans including non-working spouses) as a partial offset for the impact of inflation over the last few years.

Inflation Hurts Savings

Most Americans expect that they will have to rely primarily on personal savings to fund their retirement, rather than government programs or their employer's pension plans. At the same time, inflation is causing Americans to save a smaller percentage of their incomes each year. In 1979 and early 1980, for example, the personal savings rate dropped 3.4 percent of income. This contrasts with about 20 percent in Japan and 14 percent in West Germany.

"I am very pleased that we are finally providing significant incentives for long-term savings," Senator Dole said yesterday. "I am confident that this program will go a long way toward encouraging employees to set aside enough to retire with dignity. This is precisely the type of tax reduction measure that this country needs. It is anti-inflationary because it would not increase consumer demand and would provide long-term investment capital to improve our productive capacity."

The program has the additional virtue of simplicity. It is easy to understand and relatively simple to administer. Additional retirement savings would also take some pressure off the social security system in the future when there are more retired persons and comparatively fewer workers to fund the local social security system.

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