May 4, 2009 - Murtha, Mack Introduce Bipartisan Legislation to Jumpstart Retirement Savings

WASHINGTON, D.C. -- Congressman John P. Murtha (D-PA) and Congressman Connie Mack (R-FL) have introduced bipartisan legislation to jumpstart retirement savings by allowing Roth Individual Retirement Accounts (IRAs) to be created for children.
Family members and friends who contribute to these accounts will be eligible for a tax deduction.

Under current law, an individual must earn taxable income or compensation to open any IRA, excluding children and young Americans from opening or contributing to an account.

The Kids IRA (K-IRA) Act, H.R. 2022, changes the law and allows for children to have a Roth IRA opened in their name. Under K-IRA, family members and friends will be able to contribute to a child’s retirement savings account, where their money will grow tax-free. Money given to children in an envelope for birthdays or holidays could instead be put into a K-IRA to start a significant nest egg that children can continue building throughout their life.

“All of us are concerned about the retirement savings and security of today’s youth,” commented Murtha. “By allowing children to participate in an IRA, this legislation will ensure that they get a jumpstart on their retirement savings and provide an incentive for family and friends to contribute to their account.”

“At a time when Congress is debating various ways to provide financial security for America’s future generations, expanding Roth IRAs is a great way to encourage responsible retirement saving,” said Mack, who introduced similar legislation in the 109th and 110th Congresses. “Extending this investment option to our children and grandchildren is a common sense way to help them achieve a secure and prosperous future.”

The United States has the lowest national savings rate in the industrialized world. For the last quarter of 2008, Americans’ annual personal savings rate stood at 3.2 percent. It was 10.8 percent in 1984.

Specifically, the Kids IRA Act would:

• Ensure that any young American who had a K-IRA established for them would end up with a comfortable retirement and his/her benefactors would receive a tax benefit.

• Offer a golden opportunity for parents and grandparents to transfer wealth to their children or grandchildren, nieces or nephews and younger relatives in a nearly effortless, incremental way.

• Increase the savings rate of Americans and create a “savings pool” for many decades.

• Increase the financial literacy of millions of young Americans as they follow the progress of their K-IRA portfolio and become empowered to control their own financial future at an early age.

• Not involve the expenditure of any federal dollars.

K-IRA allows contributions to be made up until the child reaches the age of 26, at which point the account would then be rolled into a regular Roth IRA. Contributors are eligible for a 20 percent tax deduction. Like a regular Roth IRA, contributions will be limited to a maximum of $5,000 per year.

Enacting the Kids IRA Act would be a classic, straightforward American approach to a problem: simple in concept, looking to the future, involving the participation of families and simultaneously offering a great benefit to the nation.

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