Statement of Gerald E. Scorse

This statement recommends new rules for mandatory distributions from tax-advantaged retirement accounts, and for the taxation of such distributions. They should begin at age 65, not at age 70 1/2, as is now the case. The percentage amounts of the distributions should be increased across the board. In addition, so-called “stretch IRAs” should be prohibited.

The reasons for these recommendations are spelled out in an article which I wrote, “Retirement Taxes Shield the Affluent, Short-Change the Nation.” The current system is inherently inequitable. The benefits flow entirely to affluent taxpayers, and they cost the Treasury untold billions a year. The Committee is well aware of America’s large and growing federal deficit. Reforming the rules for mandatory distributions could make a significant contribution to deficit reduction.

Here is the text of the article noted above:

For almost 40 years, starting in 1974, Uncle Sam has generously subsidized retirement accounts for the golden years. Annual contributions are commonly tax-free. Gains accumulate tax-deferred, usually for decades. Only on the back end do taxes enter the picture. They’re due and payable when withdrawals begin, starting at age 59 1/2 (if desired) or at 70 1/2 (mandatory each year from then on).

The time for mandatory tax payback is exactly when the affluent—with help from both sides of the aisle—begin to welsh on their end of the retirement bargain. New ways are dreamt up, legislation enacted, and rules adopted to avoid, delay and minimize taxes on retirement account withdrawals. Ironically, it’s the affluent who enjoy the lion’s share of the subsidies all along. The Treasury foregoes $52 billion a year for high-contribution 401(k) accounts, making them the third largest tax break in America.

Let’s look at some of the ways that Uncle Sam’s generosity has been repaid by outright welshing and systematic nickel-and-diming. Then let’s adopt John McCain’s 2008 campaign mantra. Let’s put “Country First,” and see how retirement taxes could help cut our record federal deficit. Tens of millions of baby boomers will begin to hit the mandatory retirement account withdrawal age in 2016—enough time for Congress to make new rules that more fairly enforce the tax payback portion of the retirement account bargain.

A bi-partisan Congress twice crafted laws specifically inviting well-heeled taxpayers to renege on the tax payback. For 2009, in a move that could only benefit the affluent, lawmakers suspended mandatory distributions. Any taxpayer who actually needed the distribution had no choice but to take it and pay taxes; those who didn’t need it took a pass and saved thousands, adding those thousands to the federal deficit. Earlier, in another deficit-hiking move, Congress allowed up to $100,000 per-year in retirement distributions to be signed over to private charities—denying the Treasury the taxes it had coming, and state and city treasuries as well.

Both laws rested on ultra-flimsy rationales, and both have lapsed. There's plenty more that still needs fixing, starting with the mandatory distribution age itself. Who benefits, after all, from a tax payback that doesn't even have to begin until 70 1/2? Uncle Sam doesn't benefit. Those who depend on retirement accounts to help them get along don't benefit; they're drawing down well before that. The only real beneficiaries are those who simply don't need the money.

The same can be said for the withdrawal formulas, which start out low and creep up ever so slowly. The formula that applies to most people calls for a starting minimum required distribution of under 3.7 percent. Twenty-five years later, at age 95, the required distribution is just11.6 percent. While the formulas apply to all taxpayers, the benefits flow solely to those in no need and no hurry.

Now let's apply McCain's "Country First" to retirement taxes. First, let's move up the mandatory distribution age from 70 1/2 to 65: when it's Medicare time, it's also time to start paying back Uncle Sam for those retirement tax breaks. Second, let's increase the minimum withdrawal percentages to bring them more in line with actual life expectancies. Third, let's forbid so-called "stretch IRAs". These are multi-generational transfers, now permitted, which can string out distributions (and the taxes on those distributions) into the next century. Multi-generational transfers are fine, but America deserves its full cut first.

It's the least the affluent can do (or anybody for that matter) to square accounts with a generous uncle.

-30-

In closing, I want to thank the Committee for the opportunity to make this statement. It's a great country where an ordinary citizen can speak directly to the highest legislative body in the land. As I hope the statement makes clear, it's the country's interests that I have in mind.