

March 18, 2015

I respectfully request that the Individual and Savings workgroups of the Senate Finance Committee consider: 1) indexing the Social Security taxable income thresholds and 2) creation of a one-time, limited retirement distribution to purchase a home.

In late 2013, I retired at 65½ after over 30 years in banking and finance, and my wife and I moved to Pensacola, Florida, where we hoped to be able to retire. While a person never knows if he or she has enough money for retirement -- because of the enormous potential health costs of old age -- I had almost \$150K in my IRA and knew this was more than the average amount of savings. Nevertheless, I believe my retirement taxation story will be reasonably representative of many middle class couples that have retired recently or would like to, but are worried about the taxes.

First, I wish to address the need for a one-time, lifetime distribution from retirement accounts for the purpose of buying a home. For example, we bought a home for \$115K, which is just barely an average, modest house in the Pensacola area. Because of the need nowadays to put 20% equity (down payment) into the purchase -- which I fully understand and support -- this meant taking a \$30K distribution from retirement. Because my wife and I worked most of 2013, buying a home resulted in an extra 2013 tax bite of about \$9K. As if this wasn't bad enough by itself, this additional tax payment, taken out in 2014, then created what I call a repeater or echo tax effect for 2014. That is, we paid a higher tax in 2014 because it both triggered the highest social security tax rate and increased our overall income and tax accordingly. My wife works hard in the health care field, but earns roughly a modest \$21K a year, while I have only my social security, which amounts to about \$22K (before Medicare payments are deducted). The money taken to pay the previous year's tax, plus some additional money for the inevitable home repairs, resulted in an additional tax payment instead of a refund of about \$500, *had we not had to pay the additional tax on the 2013 distribution to buy our home*. While I understand the principle of taxing income previously not taxed, **a one-time (per lifetime) limited exclusion** based on some reasonably indexed amount. For example, this one time exclusion might currently be limited to \$40K, based on approximately 20% of the current median housing cost of around \$210K. This would do much to give struggling retirees a chance for home ownership, which would also help the struggling housing market. I believe the net effect would be far more beneficial to the country than taxing the distribution (thus effectively increasing the cost of buying a home for retirees). I find it ironic that there is a \$10K exemption for first time home buyers on the penalty (but not tax) for early withdrawal from retirement accounts, presumably to encourage first time home buyers from the early or pre-retirement category, but no relief for the age group most in need of a tax break.

The importance of this echo tax is not only are we paying taxes on the \$9K taken to pay the prior tax amount, but that the additional amount taken *then also triggers the social security tax rate to the full 85% level*, so that we get a double tax hit. The threshold levels are presently set too low at \$32K (50%) and \$44K (85%) since, as the CBO reports: "the shares of benefits subject to tax have grown because the income thresholds above which benefits are taxable are *not indexed for inflation or real income growth* (emphasis added)." I can tell you that for us, it is a struggle to get by, living very modestly, while trying to stay within the tax threshold for the lower rate. Again, the dollar amount of **additional** taxation at about \$2K might not seem like much, but we cannot pay it from monthly cash flow and therefore must take more money out of our retirement account. Plus this will be just enough to tip us into a higher tax bracket the following year. Likewise, if my wife gets a raise, it would be completely negated by the higher tax rate, so no motivation to work harder.

It is outrageous that the lowest threshold is \$32K, as a 2012 AARP study showed the average retirement income was \$32K and the Social Security Administration reports that **fully half** of all social security recipients pay taxes on their benefits. ***The benefits are indexed to inflation, why not index the income threshold as well?*** In our case, we're already above the 50% taxable social security income threshold at a combined \$43K and any additional amount taken from retirement puts us into the higher 85% tax bracket. When I had to take the original \$9K out of retirement in 2014 to pay the taxes on the 2013 distribution use for the down payment, not only was I having to draw down my retirement account but I was also forced to pay higher taxes for the 2014 year.

While it is too late for any change to the tax codes to do me much good (and therefore serve little self-serving interest), I feel very strongly about this and would be glad to provide additional input on this matter, should you need any assistance in what I'm sure is not, but should be, a popular position. We should be able to retire and buy a home, without being taxed repeatedly. I am a conservative ex-banker and understand the daunting tax conflict we are currently in with respect to providing for an aging population while needing to control the federal budget, but it is **disgraceful** that we making those who have worked hard all their lives shoulder an increasing tax burden. Personally, I see little logic in taxing the benefits after we have already paid into Social Security as a tax. Since this tax money feeds back into the Social Security fund, the net effect is simple to reduce the current payments. While the dollar amounts of taxes may not seem impressive to those in congress, at our combined income level we are not doing much more than getting by. Every time we need extra money for anything, we have to dip into retirement - - which in turn creates a higher and onerous tax burden. It also creates a repetitive need to take out more money and therefore a higher tax in the following year(s). I worry that if we continue to have to use retirement monies to pay taxes, on top of other expenses, that we will run out of money in our old age. I believe a one-time home buying exemption for those 62 and older (retirement age), would provide the opportunity for retirees to buy a home without the onerous tax consequence and would certainly help the anemic housing market. If nothing else is politically possible, I hope you will at least work to index the social security income thresholds to more appropriate, inflation adjusted amounts.

Respectfully, a struggling retiree in Florida