

**PRESIDENT CLINTON
INTRODUCES
UNIVERSAL SAVINGS
ACCOUNTS**

Summary Documents

April 14, 1999

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PRESIDENT CLINTON INTRODUCES UNIVERSAL SAVINGS ACCOUNTS: PROVIDING MILLIONS OF AMERICANS A NEW OPPORTUNITY TO SAVE FOR RETIREMENT

April 14, 1999

Today, President Clinton announced his Plan to Provide Universal Savings Accounts for Most Americans. These accounts will give 124 million Americans the opportunity to build wealth and to save for their retirement through a progressive tax cut. A married couple that participated for 40 years, could accumulate over \$253,680 in today's dollars - enough to produce \$20,121 a year of after-tax income in retirement.

Currently, Too Few Americans have Additional Savings. Because Americans are living longer, it is more important than ever for them to build wealth for a secure retirement. Currently, over two-thirds of Americans rely on Social Security as their principal source of retirement income, and 18 percent rely on Social Security as their only source of income. Too few Americans are saving for their retirement. The typical family headed by someone 55-64 years of age has financial assets worth just \$32,000.

President Clinton Believes that Social Security Reform Needs to be Complemented with Actions to Strengthen Private Savings and Private Pensions. Social Security reform will ensure that Social Security remains a rock solid foundation for retirement security. Universal Savings Accounts will give working American families the opportunity to save for a secure retirement. Under this new program, 73 million people who do not participate in employer-provided pension plans would qualify for USAs, as well as 51 million people with pensions.

Here's How USAs Work:

- 98 million adults would receive an automatic government contribution to their Universal Savings Account every year.
- In addition to the automatic contribution, the government would match, dollar for dollar, voluntary contributions to the USAs by low and moderate income workers. Eligible workers with higher incomes would have a match rate of at least 50 percent.

USAs Provide a Progressive Approach for Retirement Savings for the Majority of Working Americans. The current tax system provides 66 percent of the tax benefits for pensions and retirement savings to taxpayers with incomes above \$100,000. In contrast, the USA proposal would provide 80 percent of its benefits to families with incomes below \$100,000. USAs makes the tax system more progressive by providing the most generous tax breaks for low and middle income workers-- who are the least likely to have access to employer pensions and who have the most difficult time saving.

USAs Will Help Make Additional Retirement Savings Universal. Each spouse in a married couple with family earnings over \$5,000 and adjusted gross income of less than \$100,000 who is between the ages of 18 and 70 will be eligible for a USA tax credit (single taxpayers must have adjusted gross income below \$50,000; head of household filers must have income below \$75,000). In addition, workers with higher incomes who do not have pension coverage are eligible for an account.

USAs Allow American Families to Build Wealth to Meet Their Retirement Needs. USAs give these workers an opportunity to build wealth and save for retirement.

- A couple earning \$40,000 would automatically receive \$600 of tax credits deposited into their accounts, even if this family contributed nothing to their accounts. After 40 years, with only automatic contributions their accounts would total \$76,104 (in today's dollars) and provide \$6,036 a year of after-tax retirement income.
- However, if each year this family saved \$700 (\$350 in the account of each spouse), then the government would provide a \$1,300 tax credit (\$650 each). After 40 years they would have wealth totaling over \$253,680 in today's dollars, enough to provide \$20,121 of after-tax income in retirement.

USA Tax Credits

A Family of Four with an Income of \$40,000

Consider a married couple with two children. One spouse makes \$40,000 a year working for a small business. The other spouse stays at home with their young children. Like millions of other families, they live paycheck to paycheck. Before payday, their bank account rarely has more than a couple hundred dollars.

How the New USA Accounts Work for this Family. The USA accounts are designed to deliver tax credits to help families save and build wealth for their retirement. This family would receive:

- **Automatic Tax Credit:** Every year the husband and wife would each receive an automatic annual tax credit of \$300, for a total of \$600. They would claim the tax credit on their tax return, and it would be deposited in their new USA accounts.
- **Matched Tax Cut:** As a powerful new incentive to save, this couple would receive an additional \$1 in tax credit for every dollar the couple saved -- up to \$700 (\$350 each) of savings would be matched. For each dollar the couple deposited in their USA accounts, they would receive a corresponding \$1 in a matching tax credit, which would also be deposited in their USA accounts.
- **This Adds Up to A Big Tax Cut for Retirement Savings and a Great Investment:** The couple's \$700 of savings would be supplemented by a \$1300 tax credit for a total of \$2000 a year in retirement savings. That's \$600 credited automatically (\$300 each) plus a \$700 savings credit (\$350 each). The USA credit almost triples the couple's contribution, and it allows for tax favored build up of account balances.

THE AUTOMATIC TAX CREDIT PROVIDES CORE SAVINGS SUPPORT

<i>Automatic Tax Credit</i>	<i>Family Contribution</i>	<i>Matched Tax Cut</i>	<i>Total Annual Savings in USA</i>
\$600	\$0	\$0	\$600

- This savings could build to \$76,104 after 40 years -- assuming a 5 percent real rate of return.

THE MATCHING TAX CUT PROVIDES A POWERFUL INCENTIVE TO SAVE

<i>Automatic Tax Credit</i>	<i>Family Contribution</i>	<i>Matched Tax Cut</i>	<i>Total Annual Savings in USA</i>
\$600	\$700	\$700	\$2000

- This will provide a total tax credit of \$1,300.
- These savings could build to \$253,680 after 40 years -- assuming 5 percent real rate of return.
- And would provide \$20,121 of after-tax income in every year of retirement.

Building Wealth for Retirement. Regular savings over a lifetime combined with these tax credits will help working families build wealth and retirement security. If this family saved \$700 every year and received the maximum tax credit of \$1,300, after 40 years they would have a nest egg of wealth totaling \$253,680 in today's dollars. This would provide \$20,121 of after-tax income in every year of retirement from depositing only \$700 per year while they worked.

Benefits of USA Tax Credits Compared to the 10% Across-the-Board Tax Cut. This family would receive a much larger tax cut from the USA account tax credits than from the 10% across-the-board tax cut. While this family would receive just \$315 from the across-the-board tax cut, they would be eligible to receive \$1,300 from the USA account tax credits.

USA Tax Credits

A Family of Four with an Income of \$60,000

Consider a married couple with two children. One spouse makes \$60,000 a year working for a small business. The other spouse stays at home with their young children. Like millions of other families, they live paycheck to paycheck. Before payday, their bank account rarely has more than a couple hundred dollars.

How the New USAs Work for this Family. USAs are designed to deliver tax credits to help families save and build wealth for their retirement. This family would receive:

- **Automatic Tax Credit:** Every year the husband and wife would each receive an automatic annual tax credit of \$150, for a total of \$300. They would claim the tax credit on their tax return and it would be deposited in their new USAs.
- **Matching Tax Credit:** As a powerful new incentive to save, this couple would receive an additional \$0.75 in tax credit for every dollar the couple saved -- up to \$972 (\$486 each) of savings would be matched.
- **This Adds Up to A Big Tax Cut for Retirement Savings and a Great Investment:** The couple's \$972 of savings would be supplemented by a \$1,028 tax credit for a total of \$2,000 a year in retirement savings. That's \$300 credited automatically (\$150 each) plus a \$728 savings credit (\$364 each). The USA credit more than doubles the couple's contribution, and it allows for tax favored build up of account balances.

THE AUTOMATIC TAX CREDIT PROVIDES CORE SAVINGS SUPPORT

<i>Automatic Tax Credit</i>	<i>Family Contribution</i>	<i>Matching Tax Credit</i>	<i>Total Annual Savings in USA</i>
\$300	\$0	\$0	\$300

- This savings could build to \$38,052 after 40 years -- assuming a 5 percent real rate of return.

THE MATCHING TAX CREDIT PROVIDES A POWERFUL INCENTIVE TO SAVE

<i>Automatic Tax Credit</i>	<i>Family Contribution</i>	<i>Matching Tax Credit</i>	<i>Total Annual Savings in USA</i>
\$300	\$972	\$728	\$2000

- This will provide a total tax credit of \$1,028.
- These savings could build \$253,680 after 40 years -- assuming 5 percent real rate of return.
- And would provide \$20,121 of after-tax income in every year of retirement.

Building Wealth for Retirement. Regular savings over a lifetime combined with these tax credits will help working families build wealth and retirement security. If this family saved \$972 every year and received the maximum tax credit of \$1,028, after 40 years they would have a nest egg of wealth totaling \$253,680 in today's dollars. This would provide \$20,121 of after-tax income in every year of retirement from depositing only \$972 per year while they worked.

Benefits of USA Tax Credits Compared to the 10% Across-the-Board Tax Cut.

This family would receive a much larger tax cut from the USA account tax credits than from the 10% across-the-board tax cut. While this family would receive just \$547 from the across-the-board tax cut, they would be eligible to receive \$1,028 from the USA account tax credits.

USA Tax Credits

A Family of Four with an Income of \$80,000

Consider a married couple with two children. One spouse makes \$80,000 a year working for a small business. The other spouse stays at home with their young children.

How the New USAs Work for this Family. USAs are designed to deliver tax credits to help families save and build wealth for their retirement. This family would receive:

- **Matching Tax Credit:** As a new incentive to save, this couple would receive an additional \$.50 in tax credit for every dollar the couple saved -- up to \$1,333 (\$667 each) of savings would be matched.
- **This Adds Up to A Big Tax Cut for Retirement Savings and a Great Investment:** The couple's \$1,333 of savings would be supplemented by a \$667 tax credit for a total of \$2,000 a year in retirement savings. That's a \$667 savings credit (\$333 each). The USA credit increases the couple's contribution, and it allows for tax favored build up of account balances.

AT THIS INCOME LEVEL THE AUTOMATIC TAX CREDIT IS NOT AVAILABLE

<i>Automatic Tax Credit</i>	<i>Family Contribution</i>	<i>Matching Tax Credit</i>	<i>Total Annual Savings in USA</i>
\$0	\$0	\$0	\$0

THE MATCHING TAX CUT PROVIDES A POWERFUL INCENTIVE TO SAVE

<i>Automatic Tax Credit</i>	<i>Family Contribution</i>	<i>Matching Tax Credit</i>	<i>Total Annual Savings in USA</i>
\$0	\$1,333	\$667	\$2000

- This will provide a total tax credit of \$667.
- These savings could build \$253,680 after 40 years -- assuming 5 percent real rate of return.
- And would provide \$20,121 of after-tax income in every year of retirement.

Building Wealth for Retirement. Regular savings over a lifetime combined with these tax credits will help working families build wealth and retirement security. If this family saved \$1,333 every year and received the maximum tax credit of \$667, after 40 years they would have a nest egg of wealth totaling \$253,680 in today's dollars. This would provide \$20,121 of after-tax income in every year of retirement from depositing only \$1,333 per year while they worked.

Benefits of USA Tax Credits Compared to the 10% Across-the-Board Tax Cut.

This family would receive \$947 from a 10% across-the-board tax cut. At first glance, this might seem to be somewhat larger than the \$667 USA tax credit. However, the USA also provides for tax-free compounding of account balances, making the tax credit worth well over \$1000 to this family.

THE NEED FOR USAs

Making Savings For A Secure Retirement Available to More Americans

Currently, Too Few Americans Have Enough Savings For A Secure Retirement. Because Americans are living longer it is more important than ever for them to build the wealth necessary for a secure retirement. But there are gaps in the system that leave too many American families behind.

- **Social Security Provides A Core Foundation For Retirement And Reform is Necessary To Keep It Strong, But It Is Only One Leg of The Retirement Stool.** While providing basic economic security for older Americans, the program was never meant to provide enough to maintain the standard of living individuals had during their working years. Social Security replaces just one-half of pre-retirement income for an individual who earned \$17,000, and less than one-quarter of the income of an individual who earned \$72,600. Yet Social Security is the only source of income for 18 percent of elderly Americans, and the principal source of income for 66 percent of elderly Americans.
- **Pension Coverage Provides Additional Support, But Many American Workers Are Not Covered.**
 - Half of all American workers have no pension coverage at all through their current job. This situation is worse for workers in small businesses, where only 18 percent of people who work for organizations employing fewer than 25 workers have access to pensions through their current job.
 - Less than 20 percent of workers have their own IRA, and many do not contribute regularly.
 - Just one quarter of all workers are covered by 401(k) plans in their current job. And while two-thirds of people with earnings \$75,000 and over have 401(k)s, just 43 percent of those with earnings between \$35,000 and \$39,000 have 401(k)s.
 - While 91 percent of all families have some financial holdings, the median value of these holdings is just \$13,000. The median value of financial assets of families headed by someone over age 65 is just \$20,000.

The Tax Incentives For Retirement Savings Help Many American Families, But The Tax Benefits Are Skewed To The Better Off.

- Two thirds of existing pension tax subsidies go to families with incomes over \$100,000, while just one third goes to those making under \$100,000 and just 7 percent goes to families earning less than \$50,000.

USA Accounts provide a progressive tax credit so that the overall retirement system will be more balanced and give all American families an incentive to save.

- 80 percent of the tax benefits of USA Accounts go to those making *under* \$100,000.

SUMMARY OF UNIVERSAL SAVINGS ACCOUNT PROPOSAL

Universal Savings Accounts (USAs) are voluntary individual retirement savings accounts with a progressive tax subsidy.

✓**Automatic Government Contribution.** Workers and their spouses in low- or moderate-income households receive an automatic government contribution of \$300, in the form of a refundable tax credit deposited directly into their USAs. The automatic credit is phased out between \$40,000 and \$80,000 of adjusted gross income (AGI) for joint filers (\$20,000-\$40,000 for singles; \$30,000-\$50,000 for head of household filers).

✓**Government Match of Individual Contributions.** Voluntary individual contributions to a USA are matched by additional government contributions to the taxpayer's USA. The matches will also be in the form of a refundable tax credit deposited directly into the USA. Low- and moderate-income individuals receive a dollar-for-dollar match. The match rate phases down to 50 percent over the same income ranges as the phase-down for the automatic contribution, and then remains at 50 percent until the income level at which eligibility ends (\$100,000 for joint filers with pension coverage; \$50,000 for single filers with pension coverage; \$75,000 for head of household filers with pension coverage; no limit for people without pension coverage). Total contributions (including the credit) to an account are capped at \$1,000 per year.

✓**Eligibility.** To be eligible, a taxpayer must have at least \$5,000 of earnings (which can be combined earnings on a joint return) and must not be the dependent of another taxpayer. Thus, an individual without earnings can have a USA if his or her spouse earns at least \$5,000. Taxpayers younger than age 18 or older than 70 are ineligible. Taxpayers with an employer-sponsored retirement plan must have AGI of less than \$100,000 for joint filers (\$50,000 for single filers; \$75,000 for head of household filers). All eligible workers without an employer-provided pension would receive at least a 50 percent match, regardless of income.

✓**Investment Choice.** Individuals will have the option of investing their accounts in a universal retirement plan similar to the Federal Thrift Savings Plan (TSP), a 401(k)-type plan for federal government employees. Individuals would be able to choose among a limited number of broad-based investment options similar to those offered in the TSP and in many private sector 401(k) plans. We look forward to working with Congress and experts from the private sector to devise the best way to administer the accounts, as well as to explore whether it would be possible to provide account holders with the option of investing directly with private sector fund managers.

✓**Withdrawal Rules.** No amount could be withdrawn from a USA before age 65, unless the account holder dies. Once withdrawals commence after age 64, no additional contributions could be made to the account.

✓**Tax Treatment of Accounts.** Automatic and matching government contributions would not be taxable when deposited to accounts. Earnings would grow tax free until retirement. Withdrawals would generally be taxable, but 15 percent of each withdrawal would be excluded from taxes in order to approximate a tax-free return of an individual's own contribution. Voluntary USA contributions will not be tax deductible because the tax subsidy is provided in the form of the tax credit rather than a deduction, enabling the program to be more progressive.

✓**Coordination with 401(k)-type Plans.** Eligible employees will receive a government matching contribution deposited to their USA when they contribute either to their USA or to a 401(k)-type plan. The government match supplements any employer matching contributions. Therefore, USAs will not cause workers to shift contributions from private-sector 401(k)-type plans to USAs. In fact, USAs will encourage workers to save through 401(k)-type plans by giving the millions of workers who are currently eligible to contribute, but who fail to do so, a greater incentive to contribute without imposing administrative burdens on employers or plan administrators. Because contributions to a 401(k)-type plan are excludable from taxable income while USA contributions are not, joint filers with AGI of more than \$50,000 (\$25,000 for single filers; \$37,500 for head of household filers) who elect to receive government matches will be required to include in taxable income 80 percent of the portion of the 401(k) contribution that is matched.

✓**Protections for Women Including Divorcees and Widows.** The design of USAs recognizes that women are more likely to spend time out of the labor force than men and have lower average earnings than men, and ensures women will have the opportunity to accumulate significant savings in their USAs. First, spouses of workers are eligible for the USA tax credit even if they do not work. Second, the progressive credit formula targets the tax benefits to low and moderate income workers. We look forward to working with Congress and outside experts to determine what the best means are to ensure that women are protected in case of divorce or widowhood.