The Asset Management Industry
SERVING INDIVIDUAL INVESTORS

INVESTMENT COMPANY INSTITUTE

MEMO# 10901

April 16, 1999

PRESIDENT INTRODUCES UNIVERSAL SAVINGS ACCOUNTS

[10901] April 16, 1999 TO: PENSION COMMITTEE No. 26-99 RE: PRESIDENT INTRODUCES UNIVERSAL SAVINGS ACCOUNTS
____ President Clinton has released a detailed description of his plan to provide Universal Savings Accounts for middle-income and lower-income Americans. Universal Savings Accounts ("USAs") would represent voluntary individual retirement accounts established outside of the Social Security system. Under the program, 98 million adult taxpayers would receive an automatic government contribution to a USA. In addition to the automatic contribution, the government would match dollar- for-dollar voluntary contributions to USAs by low and moderate income workers, with higher income individuals eligible for a match rate of at least 50%. Eligibility Eligible taxpayers include those who have at least $5,000 of earnings (including earnings on a joint return) and who are not claimed as a dependent on another taxpayer's tax return. Taxpayers must be between 18 and 70 years old to be eligible to participate in the USA accounts program. Taxpayers covered by an employer-sponsored retirement plan must have AGI of less than $100,000 if filing joint tax returns, $50,000 if filing a single return and $75,000 if filing as head of household to participate in the program. All eligible taxpayers not covered by an employer-sponsored retirement plan would receive at least a 50% match under the program, regardless of AGI. Government Contribution and Match Lower- and middle-income taxpayers and their spouses would 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 for taxpayers filing a joint return with AGI between $40,000 and $80,000, for single filers with AGI between $20,000 and $40,000 and head of household filers with AGI between $30,000 and $50,000. Voluntary individual contributions to a USA would be matched by government contributions to a taxpayer's USA via a refundable tax credit deposited directly in the USA. Low- and moderate-income taxpayers would receive a dollar-for-dollar match. The match rate would phases down to 50% over the same income ranges as the phase-down for the automatic contribution, and then would remain at 50% until the income level at which eligibility ends ($100,000 AGI for joint filers with pension coverage, $50,000 for single filers with pension coverage, $75,000 for head of household filers with pension coverage and no limit for taxpayers without pension coverage). Total contributions to the USA, including the credit, would be capped at $1,000. Investment Options/Administration Issues Taxpayers would have the option of investing their USAs in a universal retirement plan similar to the Federal Thrift Savings Plan ("TSP") and would be able to choose among a limited number of broad-based investment options similar to those offered in the TSP. Amounts in a USA would not be eligible for withdrawal before age 65, unless the accountholder dies. Once withdrawals commence after age 64, no additional contributions could be made to the USA.

Automatic and matching government contributions would not be taxable when deposited to the accounts. Earnings would grow tax-free until distribution. Withdrawals would generally be taxable, except that 15% 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 would not be tax deductible because the tax subsidy is provided in the form of a tax credit and not a deduction. Eligible employees would receive a government matching contribution deposited to their USA when they contribute to either to their USA or to a 401(k)-type plan. The government match would supplement any employer match. The Administration believes that USAs will not cause employees to shift contributions from private-sector 401(k) plans to USAs. Because contributions to a 401(k) plan are excludable from taxable income and voluntary USA contributions are includible in income, joint filers with AGI of more than $50,000 ($25,000 for single filers and $37,500 for head of household filers) who elect to receive government matches will be required to include in taxable income 80% of the portion of the 401(k) contribution that is matched. The attached statement on USAs provides a description of the program with hypothetical examples of how the USA program would benefit families of four with AGI of $40,000, $60,000 and $80,000. Kathryn A. Ricard Assistant Counsel Attachment

---