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7/24/[97] - IRA [Individual Retirement Account]/Savings Coalition

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THE WHITE HOUSE

Marie -

The Savings Coalition of America would like to come in for a meeting next week to discuss their issue with us. They have specifically asked to meet with you. I know that we fundamentally support expanded IRA's but have some reservations about the present bills because of how they are set up in the out years. In any event, I think it would be good for us to listen to the coalition. Would you like to have a meeting set up for next week?

Pete.

Marge -

Meeting request for MARCIA.

Pete

SAVINGS COALITION OF AMERICA
MEMBER ORGANIZATIONS

Aetna Retirement Services
Alliance of Practicing CPAs
American Association of Engineering Societies
American Century Investments
American Council on Education
American League of Financial Institutions
Americans for Tax Reform
Bank of America
Charles Schwab Corporation
Citicorp/Citibank
Coalition for Equitable Regulation and Taxation
Consumer Bankers Association
Credit Union National Association
Edward D. Jones & Company
Financial Network Investment Corporation
G. E. Capital
HD Vest Financial Services
Household International
Independent Insurance Agents of America
Institute of Electrical & Electronics Engineers - United States Activities
International Association for Financial Planning
Lincoln Trust Company
Morgan Stanley, Dean Witter, Discover & Co.
NASDAQ Stock Market
National Association of Enrolled Agents
National Association of Home Builders
National Association of Independent Colleges and Universities
National Association of Realtors
National Rural Electric Cooperative Association
Prudential Securities, Inc.
Retirement Industry Trust Association
Savers & Investors League
Smith Barney
The Bankers Roundtable
United States Chamber of Commerce
Zurich Kemper Investments, Inc.

A.G. Edwards, Inc.
America's Community Bankers
American Bankers Association
American Council for Capital Formation
American Express Financial Advisors
American Nurses Association
Association of Jesuit Colleges and Universities
Bankers Pension Services
Chase Manhattan Bank
Citizens for a Sound Economy
College Savings Bank
Countrywide Credit Industry
Delaware Charter Guarantee & Trust Company
Fidelity Investments
First Trust Corporation
Gold & Silver Institutes
Home Savings of America
Independent Bankers Association of America
Institute for Research on the Economics of Taxation
Investment Company Institute
Merrill Lynch & Company, Inc.
Mortgage Bankers Association of America
National Association for the Self-Employed
National Association of Federal Credit Unions
National Association of Uniformed Services
Principal Financial Group
Resources Trust Company
Retirement Accounts, Inc.
Securities Industry Association
Sterling Trust Company
USAA
Wheat First Butcher Singer

Everybody Needs To Save For Retirement.

Congress and the President have an opportunity to help *__all__* Americans save for retirement and increase the savings rate in this country by providing universal eligibility for Individual Retirement Accounts (IRAs).

Congress and the President can help all Americans save by:

- Eliminating a current restriction on IRAs for couples earning above $40,000 where one spouse cannot have a deductible IRA if her or his spouse participates in an employer-sponsored plan;
- Raising the income limits on traditional, tax-deductible IRAs;
- Allowing penalty-free withdrawals from IRAs for such major lifetime occurrences as buying a first home and college education expenses; and,
- Creating a new IRA for *__all__* Americans in which after-tax contributions are made and distributions are free of tax upon retirement. This new universal IRA is the **ONLY** item in the tax relief package that applies to *__all__* Americans — without this new IRA a significant number of Americans will see no tax relief in this bill.

IT HAS BEEN 16 YEARS SINCE AMERICANS HAVE HAD A TAX CUT. THE UNIVERSAL IRA ENSURES THAT __ALL__ AMERICANS GET A TAX BREAK.

THE UNIVERSAL IRA — ITS GOOD PUBLIC POLICY

the Savings COALITION OF AMERICA

Aetna Retirement Services
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Alliance of Practicing CPAs
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Everybody Needs To Save For Retirement
IRAs Should be Universally Available to All Americans

- **IRA Proposals Benefit Everyone** – The universally available IRA proposals that are contained in both the House and Senate versions of the Budget Reconciliation bill (HR 2014) are the only tax cuts in the budget reconciliation package that will benefit all Americans. These proposals give a new tax benefit to everyone who wants to take advantage of them (including those who do not have school age children). The provision that allows spouses to have a deductible IRA even if married to someone who is participating in an employer-sponsored plan would help millions of Americans (particularly women) who are not currently eligible for any retirement plan to save for their retirements. The penalty-free withdrawal feature for a first-time home purchase and the back-loaded IRA are very attractive to the young. The penalty-free withdrawal provision for education provides strong savings incentives for people with children. The traditional, deductible retirement vehicle in the IRA is popular with all Americans, but particularly with those in their 40s, 50s, and 60s who see retirement just around the corner.

- **We Need To Do Something About America's Savings Crisis** – The IRA change is the only proposal in any of the pending tax cut packages that addresses America's long range savings crisis. Americans today are saving less than at almost any time since World War II. As a nation, this low savings rate leads to higher interest rates and slower economic growth. For individuals (in particular the Baby Boom generation), our low savings rate will lead to a retirement savings crisis unless we find a way to change people's attitudes about saving – to find a mechanism to convince people to rearrange their priorities.

- **An IRA that is Available to Everyone is Our Best Bet to Change American's Savings Behavior** – An IRA available to every American will lead to the type of advertising that will increase savings by all Americans Before 1986, the IRA worked because banks, mutual funds, brokerage houses and insurance companies were competing to "sell savings." Instead of selling goods, Madison Avenue was selling investment . Universal IRA availability is what led to the advertising of IRAs in the mid-80s. The income limits imposed on IRA eligibility in 1986 led directly to a dramatic reduction in advertising and a resulting reduction in retirement savings. If we are to get all Americans focused on the importance of saving, we need to recreate and expand the type of saturation advertising that made IRAs so successful a decade ago. Universal availability of a meaningful tax-advantaged IRA is the only way to ensure the level of advertising that is needed to get that job done.

- **Universal Availability Reduces Confusion and Increases Savings** – The 1986 experience teaches that us that limiting IRA eligibility based on income confuses people and scares them away from establishing a pattern of savings that IRAs would otherwise promote. One of the most important effects of the IRA cutbacks in the Tax Reform Act of 1986 is the fact that IRA contributions <u>for those who continued to be eligible for deductible IRAs</u> dropped by more than 40% in the first year and have since dropped by over 65%. Having some kind of tax-favored IRA available to everyone will make sure that people make that initial phone call to set up an account.

- **Income Limits Reduce Savings by All Americans** – In the end, income limits hurt all Americans. Right about the time someone starts getting interested in setting up a new IRA, they hear a disclaimer that only certain individuals are eligible for IRAs and that they should immediately check with an advisor to see if they qualify. That just scares people, especially middle income families that most need to start the retirement savings habit. They automatically assume that they are one of the ones that are excluded. Or they decide not to start the pattern of putting in $2000 per year because they will assume they won't be eligible next year and that, as a result, it is just not worth the trouble. And, in a vicious circle, that taxpayer confusion and uncertainty will lead to substantially less advertising that will probably not be sufficient to change Americans' savings attitudes.

- **IRAs Capped at $2,000** – Remember, IRAs are capped at $2,000 per year. That doesn't mean much to the high-income person – it's a small tax break for them, only slightly better than buying a tax-exempt bond. But the benefits for everyone else that flow from universal availability (and the resultant advertising) will more than offset any perceived (albeit unjustified) concern that the proposal could result in some type of small tax cut for higher income individuals. That is the reason that imposing income limits on the new IRA will result in very little reduction in the scored revenue loss from the IRA proposal – there simply are not that many high income Americans and the revenue lost from denying those individuals a $2,000 IRA would have only a very small impact on the taxes they would otherwise owe.

- **Annual Income Limits Are Unfair to Taxpayers With Fluctuating Income** – For many people, income fluctuates from year to year. A universally available IRA ensures that these individuals can make IRA contributions in the good years – the years in which they actually have the financial resources to make a contribution. This is particularly important for the self-employed and for individuals in cyclical industries like farming. It isn't really fair to these people to say you can have an IRA in the years that you don't have the resources to contribute, but if you have a good year then you can't have an IRA.

- **Current IRA Proposals Are Fiscally Responsible** – The cost of the IRA proposals does not "explode" in the out years. The costs do increase steadily each year into the future, but that will happen with any savings incentive as more and more people make annual contributions to the new IRAs over time. The Senate Universal IRA proposal's cost is about $5 billion per year when fully phased in by 2007. After that, the annual cost estimate of the IRA expansion increases by about $500 million per year. When compared to the between $20 - 30 billion that the Congressional bills and the President propose to spend on child tax credits and other education incentives in 2007, the IRA provisions are clearly a very small portion of the total cut proposed and will continue to be even into the distant future. Looked at more broadly, the IRA revenue cost into the far distant future is an infinitesimal portion of the total multi-trillion dollar Federal budget.

- **Universal IRAs are a Critical National Investment** – The IRA tax cuts proposed by the Congress are a relatively small investment that should be made in America's future. IRAs provide exactly that type of long-range savings incentive we need to fuel long-term economic growth. That savings will be available in the future to provide funds for Baby Boom retirement and other critical national needs. The benefits of a more secure retirement for Americans and expanded economic growth will more than offset the relatively modest costs of the proposal.