

FOR IMMEDIATE RELEASE
December 3, 2003

CONTACT: Daniel Clifton
(202) 785-0266

New Study: Administration's Savings Initiative Will Boost Savings and Investment

Shareholder Group Documents the Benefits of Treasury's Simplified Savings Proposal

WASHINGTON — American Shareholders Association (ASA) today released a study documenting the benefits of the Department of Treasury's proposal to create Lifetime and Retirement Savings Accounts (LSA/RSA). Last January, President Bush's fiscal year 2004 budget called for the creation of LSA's and RSA's to expand personal savings by abolishing the double tax on savings and simplifying the complexity of the current rules.

The Treasury proposal creates LSAs to be used for any type of saving and will allow an individual, to contribute up to \$7,500 a year and make penalty-free withdrawals at any time. Participants will be able to save without being double taxed on savings for any purpose, including their children's education, home purchasing, healthcare needs, or to start their own business. Retirement Savings Accounts RSAs will allow individuals to contribute up to \$7,500 a year (in addition to the amounts contributed to an LSA) and works like a Roth IRA. The proposal greatly simplifies existing IRA rules, which will encourage more savings and hence be used to supplement social security and labor earnings in retirement.

"The double tax on savings coupled with complex rules has led to a significant decline in America's personal savings rate," said ASA Executive Director Daniel Clifton, who co-authored the report. **"Removing the discriminatory double tax on savings and simplifying the existing rules will increase the number of savers, enhance the personal savings of working families, and bolster the productive capacity of America's economy. With the economic expansion set to take off, it is imperative that Congress immediately pass this proposal to ensure families can save throughout the entire expansion."**

The effects of double taxation on savings and investment cannot be underestimated. Last May, Congress passed the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA), which significantly reduced the double taxation on dividends, capital gains, and business investment. As a result, favorable dividend activity is up more than 50 percent, shareholder wealth has increased by \$1.7 trillion, and business investment is increasing at a 15 percent annualized rate in just the first six months since being passed. These fundamentals set the stage for the third quarter's 8.2 percent increase in Gross Domestic Product (GDP), the fastest economic growth in twenty-years.

"Despite sustained economic growth over the last twenty-five years, the personal savings rate continues to trend downward," continued Clifton. **"Shareholder wealth increased \$11 trillion during the previous economic expansion, yet the personal savings of Americans declined. Eliminating the double tax on savings and reducing tax complexity will allow working Americans to take advantage of the next ten-year expansion and save a portion of their increased wealth as markets move upward."**

Among the reports main findings:

- 1) **The personal savings rate of Americans is dangerously low.** Despite a slight increase stemming from the 2001 tax cut, personal savings represented just 3.7 percent of disposable income in 2002.
- 2) **Personal savings of today's seniors will not work for younger workers.** Currently, just 38 percent of senior citizen income is personal savings. With Social Security heading towards insolvency, younger workers must increase their personal savings to have a comfortable retirement.
- 3) **The Baby Boomers are not ready for retirement.** The median family aged 55-64 has just one-fifth of the needed savings to supplement Social Security for a comfortable retirement.
- 4) **Low savings is partially the result of double taxation and complexity.** The complexity of current savings initiatives coupled with a tax bias, which favors consumption over savings reduces the ability and incentive to save.
- 5) **The new savings vehicles will increase net savings.** Empirical evidence finds that for each additional dollar of new contributions, \$0.26 cents is new savings. At the same time, simplification of existing rules will increase savings. Previous simplification laws increased savings while laws adding to complexity decreased savings.
- 6) **Low- and middle-income Americans benefit from the new savings vehicles.** Contrary to opponents claims, low- and middle-income workers significantly benefit from this proposal. The creation of LSAs works to the favor of lower-income Americans, which are more focused on saving for near future expenses rather than retirement. Additionally, the tax code's bias in favor of consumption makes the cost of saving much higher than consumption for lower-income workers. At the same time, income mobility is very fluid so today's poor reaps the benefits as their income grow over time.
- 7) **"Cost" of the proposal is small, especially viewed in the context of benefits.** This proposal will cost just 0.01% of all federal spending over the next ten years, while improving the standard of living for all Americans. Critics claim that this proposal will "hurt" government revenues, but the increase in the capital stock will yield significant economic growth and hence, government revenues. As such, this proposal may actually be self-financing in the long run.
- 8) **Now is the time to pass this legislation.** With the economy set for a sustained expansion, passage of LSAs and RSAs will ensure working Americans are saving throughout the expansion. Congress should pass this legislation immediately.

The report can be accessed at <http://www.americanshareholders.com/report/asasavings12-03-03.pdf>

The American Shareholders Association is a non-partisan, not-for-profit organization dedicated to analyzing legislation affecting stockholders. To educate U.S. investors, ASA reports the public positions of elected representatives on these issues to its members. For more information please contact Daniel Clifton at (202) 785-0266 or by email at dclifton@atr.org