DEPARTMENT OF THE TREASURY
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FACT SHEET:
President Bush's Savings Proposals

"Americans can help secure their own future by saving. Government must support policies that promote and protect saving. And saving is the path to independence for Americans in all phases of life, and we must encourage more Americans to take that path."

-President George W. Bush

OVERVIEW

Today, Treasury Secretary John Snow joined Senator Craig Thomas and Representative Sam Johnson to announce the *Save Initiative*, an effort sponsored by Senator Thomas in the Senate and Rep. Johnson in the House to pass legislation enacting three of the President's key savings proposals, Retirement Savings Accounts (RSAs), Lifetime Savings Accounts (LSAs), and Employer Retirement Savings Accounts (ERSAs).

These initiatives will give more hardworking Americans the opportunity to save so they can enrich their lives and strengthen their retirement security. These proposals make saving simple for everyone and for every purpose. No longer will individuals have to worry about the confusing alphabet soup of six different savings accounts. No longer will people have to worry about the endless maze of confusing rules. These simple accounts will have one powerful goal -- making saving for everyday life and retirement security easier and more attractive.

Lifetime Savings Accounts

- Lifetime Savings Accounts (LSAs) can be used for any type of savings, including education, a new home, healthcare needs, or even seed money to start a small business.
- An LSA will allow an individual, regardless of age or income, to contribute $5,000 a year (which would be indexed for inflation) and make penalty free withdrawals at any time and for any purpose.
- Like Roth IRAs, contributions will not be deductible, but **earnings and distributions would be tax-free.**
- Unlike IRAs, when people take money out of their LSA, they will not be required to overcome a maze of paperwork requiring them to document qualified expenses, financial institutions will not need to explain complicated rules to participants, and the government will not need to verify the qualifying expenses.

LSA's are good for average Americans because:

- Giving people the ability to access their money at anytime for any purpose will encourage more people to save.
- LSAs take away the hassle factor. The combination of universal eligibility and unrestricted tax-free distributions makes saving simple and makes it more likely that average Americans, especially those with less financial sophistication or lower income, will participate.

Retirement Savings Accounts

- Retirement Savings Accounts (RSAs) allow individuals to contribute up to $5,000 per year (indexed for inflation) in savings for retirement regardless of their income.
- RSAs can be used only for retirement saving.
- RSAs will improve and simplify savings opportunities by consolidating traditional IRAs, nondeductible IRAs and Roth IRAs, each of which has a confusing and different set of rules regarding eligibility and tax treatment, into one simple, streamlined account with rules similar to current law Roth IRAs.
- Like current law Roth IRAs, contributions will not be deductible, but **earnings would accumulate tax free and distributions after age 58 (or death or disability) would be tax free.**
- Existing Roth IRAs would be unaffected (except that they would be renamed RSAs). Existing traditional and nondeductible IRAs could be converted into RSAs; those not converted to RSAs could not accept any new contributions (other than rollover contributions); no one would be required to convert.

RSAs are good for average Americans because:

- Simplifying the complex eligibility rules and repeal of the income limits will encourage more Americans to save for retirement.
- RSAs make saving for retirement simple and easy. Individuals would not be required to make minimum distributions from the accounts during their lifetime, simplifying financial planning during their retirement years.
- RSAs would insure that money set aside for retirement is used for retirement. Current IRAs allow for withdrawals for many non-retirement purposes. Each withdrawal from an IRA potentially reduces retirement funds.
- No longer would savers have to worry about complex rules allowing withdrawals from IRAs for certain qualified expenses. LSAs would allow people to save for expenses such as health care or education while RSAs would go exclusively towards retirement savings.

Employer Retirement Savings Accounts

- There are currently a bewildering array of tax-preferred, employer-based retirement savings accounts with similar goals but different rules regulating eligibility, contribution limits, tax treatment, and withdrawal restrictions.
- The proposal would consolidate 401(k), thrift, 403(b), and governmental 457 plans as well as SARSEPs and SIMPLE IRAs into a single account, Employer Retirement Savings Accounts (ERSAs), which could be sponsored by any employer.
- The overwhelming complexity of current rules imposes substantial burdens on employers and workers and discourages employers from offering plans to workers.
- ERSAs would follow a greatly simplified version of the existing rules for 401(k) plans.

ERSAs are good for workers because:

- More Americans would have access to these plans.
- Because of the complexity and compliance costs of current employer sponsored retirement plans, many firms, especially small businesses, do not offer employer sponsored savings opportunities for retirement.
- By simplifying and consolidating these plans into one account, ERSAs, compliance costs and complexity would be reduced encouraging more employers – especially small businesses – to offer employer sponsored retirement plans.