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Hillary Clinton's American Retirement Accounts Plan: A 401(k) Plan For All Americans

Today, Hillary Clinton announced a bold new American Retirement Accounts plan with generous matching tax cuts that—alongside her efforts to strengthen defined benefit pension plans—will help tens of millions of middle class families build wealth for their future. Building on her commitment to protect the guaranteed benefit of Social Security, Hillary's American Retirement Accounts plan will tackle the current retirement savings crisis by helping ensure that all Americans can afford a dignified retirement.

Under the plan, working and middle class families who currently have the hardest time saving will get generous matching tax cuts as an incentive to save. And all Americans will get to open new American Retirement Accounts that will be designed to provide no-hassle, portable savings throughout their careers. In essence, the plan will provide universal access to a generous 401(k) for all Americans.

"I believe it's time for a new bargain with the American people – a bargain that reflects the changing global economy and the new realities of aging. I believe that if you work hard and contribute to our country, you should have the opportunity to save and invest. And through the discipline of good planning and the miracle of compound interest, you should be able to build wealth for yourself, a better future for your family, and a secure retirement," Clinton said.

"That's why today I'm announcing my plan to provide every single American with an easy, automatic opportunity to save for the future through a new account I'm calling an American Retirement Account. These accounts will take the best of 401(k) plans – and make it available to every working family in America.

"They will help those who are currently falling through the cracks of our system, while reducing wealth inequality, increasing national savings, and encouraging economic growth. And they will ensure all Americans can save and build wealth for their retirement. This is a major commitment to ensuring a secure retirement for all Americans.

"My plan will help tens of millions of middle class families go from just getting by to getting ahead – putting them on a path to a secure retirement."

Hillary's American Retirements Account plan will:

- Offer matching tax cuts of up to \$500 and \$1000 to help middle class and working families save
- Establish new "American Retirement Accounts" that allow families to save for retirement in a way that is easy, secure and portable
- Encourage all employers to allow no-hassle, direct deposit enrollment into American Retirement Accounts
- Reduce disincentives to saving by removing asset-tests for moderate income families to contribute to American Retirement Accounts
- Freeze the estate tax at 2009 levels to pay for matching tax cuts for middle-class savings

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Hillary Clinton's American Retirement Accounts Plan

The Challenge: When it comes to defined contribution plans, we know what works to help families save for retirement. We know that when people have access to retirement accounts that provide generous matching incentives and that make saving easy and secure—with automatic enrollment, direct deposit options from workers paychecks and secure diversified investment options—they are more likely to build solid nest-eggs for their future. *Yet today, more than half of Americans each year are not able to benefit from an easy, secure and*

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generous retirement account. As a result, there are huge holes in our retirement savings system:

- *Over 75 million workers each year have no employer sponsored pension.* This includes 77% of small business employees; 77% of part time workers; 73% of Hispanics; 59% of women and 56% of African Americans. [Census, 2006]
- *Among households nearing retirement, half have \$15,000 or less in a 401(k) or IRA type plan.* [Federal Reserve, Survey of Consumer Finances 2004]. Nearly a third—and 39% of African American and Hispanic households—do not have enough retirement savings, including Social Security, to replace even half of their income in retirement. [Economic Policy Institute, State of Working America, 2007]
- *Rather than helping these families, our system for encouraging retirement savings is upside-down.* By relying on tax deductibility, an employee in the 35% bracket gets 35 cents for every dollar he saves; while an employee in the 10% bracket gets only 10 cents. *The result: of the nearly \$200 billion a year the U.S. spends to encourage retirement savings, about half goes to the top 10% of earners, while 10% goes to the bottom 60%.* [OMB 2007; Brookings,2004]
- *This upside-down system, with so many families falling through the cracks, has contributed to America's abysmally low private savings rate.* In 2006, the private savings rate fell to its lowest level since the great depression. [Bureau of Economic Analysis]

A Solution: Hillary's American Retirement Accounts Plan. Hillary believes that we need to take head-on this national retirement savings crisis by giving all Americans an opportunity to save and build wealth for retirement that is as *easy, secure and generous as is offered by good employer-sponsored 401(k)s.* Her American Retirement Accounts Plan will give that chance to the tens of millions of Americans who are currently falling through the cracks while reducing wealth inequality, increasing national savings, and encouraging economic growth. Under the plan, working and middle class families who currently have the hardest time saving will get generous matching tax cuts as an incentive to save. And all middle class Americans will get to open new American Retirement Accounts that will be designed to provide no-hassle, portable savings throughout their careers. *In essence, the plan will provide universal access to a generous 401(k) for all Americans.*

Key Components of Hillary Clinton's American Retirement Accounts Plan

1. **Matching Tax Cuts to Help Middle Class and Working Families Save:** This new proposal will provide a matching refundable tax credit—dollar-for-dollar—for the first \$1,000 of savings done by every married couple making up to \$60,000. The plan will provide a 50% match on the first \$1000 of savings for every couple making between \$60,000 and \$100,000, which will be phased out after that. This matching tax credit will be available to all Americans in existing 401(k) type accounts as well as the new American Retirement Accounts. That means *tens of millions of middle-class families will get matching tax cuts of up to \$500 and \$1000 to help them build a nest egg for retirement.*
2. **A New "American Retirement Account":** Like Hillary's approach to health care, her American Retirement Account plan will build off the existing employer-based retirement savings system. Those who like their current retirement savings accounts can keep them—the only change is that they may be eligible for generous new matching tax credits. For those who want a new choice, Senator Clinton will let all middle class Americans open a new American Retirement Account. These accounts will allow individuals to contribute up to \$5,000 per year on a tax-deferred basis. The first \$1000 contributed into the accounts will be eligible for the new 1-to-1 and 50% government matches. In addition, the new American Retirement Accounts will:
 - **Offer secure, diversified investment options:** Individuals will have the choice to set-up their accounts with any private provider that offers diversified investment options and that includes as a default option, a passively managed lifecycle-type fund. Individuals will also have a fall-back option of setting up accounts through a similar system to the one that Members of Congress currently utilize.
 - **Help Build Wealth and Provide a Cushion During Economic Downturns:** The new American Retirement Accounts would, like existing IRAs, limit penalty-free withdrawals to major life investments—buying a home, paying for higher education, and retirement. But in light of the growing economic uncertainty facing American families, workers will also be able to withdraw 10-15% of the savings from their American Retirement Accounts to help tide them through periods of extended unemployment. Individuals would also have the option of taking out loans from their American Retirement Accounts in limited circumstances.
 - **Provide the First Fully Portable Matching Account:** The American Retirement Account will be the first account that provides a secure, diversified opportunity to get generous matching financial incentives for saving regardless of whether you are working for a firm that provides an employer match or traditional 401(k). This is particularly important to middle class workers who start their own businesses, take time off to care for a child or relative, or work independently or part-time. Hilary does not believe that we should deny matching retirement incentives to these workers and parents simply because they are outside the employer-sponsored system. Rather than having to rely on full-time jobs with certain employers, these Americans will continue to receive a strong financial incentive to build wealth throughout their lives.
 - **New Choices Without New Bureaucracy:** American Retirement Accounts will be established without any new government bureaucracy, by creating competition in the private sector to provide plans that are both secure and marketable. Individuals will get

to choose how they want to set up their American Retirement Accounts. They can set them up with private providers who offer diversified investment options with a default passively managed lifecycle-type option and low administrative costs. Or they will have an option of opening an American Retirement Account through a publicly managed clearinghouse similar to the Thrift Savings Plan which Members of Congress can currently utilize. Investments in the accounts opened through this public clearinghouse would be held and managed by private financial institutions, who to the greatest extent possible would manage administrative and transactional support.

3. **No-Hassle Direct Deposit Savings into New American Retirement Accounts:** To ensure that the 75 million workers currently falling through the cracks of our savings system not only have access to a new American Retirement Account but can save in a way that is easy and automatic, Hillary's plan will encourage all employers to provide their employees with the option to directly deposit a portion of their salaries into the new American Retirement Accounts – and automatically deposit savings unless their workers opt-out. First, the new government matches will themselves take an important step in that direction by giving employers a strong incentive to make it easy for their rank-and-file workers to begin saving—and give employees new reason to request this option from their employers. Second, while for the large majority of firms that already employ payroll deposit systems, the cost of providing employees with the option to direct a portion of their salary into a new American Retirement Account will be negligible, Hillary's plan will offer new tax credits to help small businesses offset the start-up costs of getting their employees saving. She will double the existing tax credit to \$1,000 for the first year that a small employer offers a qualified retirement plan to its employees, and create a new \$500-per-year tax credit for the first three years that a small employer provides direct deposit options to its employees. Finally, Hillary will streamline the filing system for employers to make it as easy and automatic as possible for them to claim these tax credits and provide new savings options for their employees.

- **Automatic Savings Options for Self Employed Workers:** In addition to ensuring that more employees can benefit from automatic payroll deposits into American Retirement Accounts, Hillary's plan will work with Congress, financial institutions and community groups to make it easy for the self-employed and others outside of the employer-based system to put their savings on auto-pilot through easier access to electronic automatic debit arrangements.

4. **Reforming the Asset Tests that Force Moderate-Income Families to Choose Between Retirement Savings and Receiving Benefits like Food Stamps.** In addition to providing generous new incentives for working families to save, Hillary's American Retirement Accounts plan will reduce disincentives to save that exist in our retirement system. Unfortunately, current policy actually penalizes lower-income families who want to save for retirement, by disqualifying them for means-tested benefit programs like food stamps, SSI, and Medicaid. Hillary's plan will reform existing asset tests to exempt retirement account balances—including in existing 401(k)s and IRAs and in new American Retirement Accounts—for means-tested benefit programs. This will ensure that working families who are already struggling to save will no longer have to choose between saving for retirement and receiving key benefits and income supports. Nor will they be forced to liquidate retirement savings if they hit hard times.

5. **A Fiscally Responsible Plan to Provide a 5000-to-1 Tax Cut for Wealth Creation:** The cost of the generous matching tax cuts to middle income families in Hillary's American Retirement Accounts plan would be about \$20-\$25 billion per year. Hillary will finance these tax cuts without increasing the deficit by dedicating a portion of the revenue from freezing the estate tax at its 2009 level of \$7 million per couple. According to the Joint Committee on Taxation, freezing the estate tax at that level and avoiding outright repeal generates more than \$400 billion over ten years. By devoting a portion of these resources to fund the matching tax cuts in the American Retirement Accounts plan, Hillary will be avoiding a further tax cut for 10,000 of the wealthiest estates in the U.S. in order to give tens of millions of families a tax cut to help build their own nest egg for retirement. If 50 million households benefit from the matching tax credits in the American Retirement Account, that would mean that **for every 1 wealthy estate facing a less generous estate tax exemption, at least 5,000 middle class families would receive a tax cut that will help them save, invest and one day own an estate of their own.**

- **Positive Impact on Private and Net National Saving:** The American Retirement Accounts plan will help increase both our anemic national and private saving rates. Unlike consumption oriented tax cuts that can reduce national saving if not fully-paid for, the matching credits in the American Retirement Accounts plan will result in an increase in national and private saving. First, the matching tax credits will be directly saved in retirement accounts and therefore have no negative impact on national saving. Yet, most important, tens of millions of Americans will only receive these matching tax credits if they are committing to new and additional savings. As a result, whereas savings incentives for the well-off typically lead to a shift in savings to tax-favored accounts, the matching tax cuts in the American Retirement Accounts will encourage families to begin saving or to save more – thus leveraging in additional private savings and making a positive contribution to net national saving as well. The private saving rate in the US is near its lowest level since the 1930s. And according to Eugene Steuerle of the Urban Institute, if the bottom half of Americans saved only \$500 more a year, it would increase national saving by 26%. Thus, if a far greater share of Americans than expected respond to the new matching incentives in the American Retirement Accounts by saving more—while it might require additional offsets to make the proposal budget neutral—this higher take up rate would mean a higher increase in national saving and thus represent a high-class problem to deal with.

6. **Moving Forward to Secure Retirement Savings For All Americans:** Hilary looks forward to working with families, pension, labor and savings experts and members of Congress—including the chairmen and members of the tax writing committees—during this campaign and in the White House to ensure that the American Retirement Accounts plan includes the best ideas and the right details to make it as effective as possible. She will work to implement her plan to make 401(k)s universal alongside her strong commitment to strengthen defined benefit pensions and to protect Social Security's guaranteed risk-free benefits.

Paid for by Hillary Clinton for President

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