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President Clinton's Flawed Universal Savings Account Program

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President Bill Clinton's proposed Universal Savings Accounts ("USA accounts") program is a fundamentally poor plan that is cloaked with a few good features. Although Americans of all income levels would be able to save more for their retirement with these accounts, the program would do little to resolve Social Security's financial problems. It would initiate a new tax-supported entitlement, and it could open the door to the federal government's investing in the stock market. And it would do little to increase savings, because those who would benefit most from these accounts would be unable to take full advantage of them.

Under the President's plan, all single Americans that earn between $5,000 and $50,000 a year and married couples earning under $100,000 a year would receive a refundable tax credit of $300 a year to deposit into a USA account. The government would match additional funds taxpayers were able to contribute to these accounts, including, in some circumstances, those of workers with higher income levels. The level of the match would be based on each worker's income.

To be sure, workers could expect to earn much more in retirement money from each dollar they placed in USA accounts than they now earn from each dollar they pay in Social Security taxes. Unfortunately, the USA program's many flaws outweigh this benefit.

1. **USA accounts would not save Social Security from insolvency.** Instead of dealing with Social Security's problems, President Clinton would start a whole new program in addition to Social Security. Using part of the budget surplus to fund a new program would do little to avert Social Security's impending financial crisis. As proposed by the Clinton Administration, USA accounts would spend more tax money without helping the federal government to make any painful decisions about the future. Social Security still would face insolvency.

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2. **USA accounts would end up becoming a new tax-financed entitlement.** Using promised surpluses to fund USA accounts would mean that, if the government ran a deficit in the future, working Americans would lose out. The Congressional Budget Office has warned that deficits could return in the near future. If deficits returned, either Congress would have to end the USA program or future workers would have to pay higher taxes

for yet another new entitlement. Far from representing a tax cut, USA accounts could become the first step toward a future tax increase.

3. **USA accounts could open the door to government investment in the stock market.** The actual details of how money in the USA accounts would be invested are not clear. Although many observers assume the money would go into privately managed accounts, this is not definite. The President says only that he will "explore whether it would be possible to provide account holders with the option of investing directly with private sector fund managers." The alternative would be a new government agency that invested the money in the USA accounts. There is very little difference between a government agency that invests money in the stock market for individual citizens and one that simply invests a portion of the Social Security trust fund. Federal Reserve Board Chairman Alan Greenspan's warnings about the risk of political interference would apply in either case.

4. **USA accounts are poorly designed for lower-income families.** Most lower-income families—those who will need additional retirement savings the most—would not have enough extra income to make the contributions necessary to receive federal matching funds. Moreover, most taxpayers faced with the choice of paying rent or medical bills, or putting aside money for an event 40 years in the future, are unlikely to have the extra amount on hand to receive the federal match. As a result, USA accounts would become another middle-class entitlement program.

5. **USA accounts would do little to increase savings.** One reason many Americans cannot save enough for retirement is that current Social Security taxes are so high that little income is left to save after paying for life's necessities. Leaving these high taxes in place without reforming Social Security would do nothing to help these Americans.

Real Reform Is Needed. The solution to these problems is not to create a new savings program, but to turn part of the existing Social Security system into a true savings tool. Instead of establishing USA accounts, Congress should allow Americans to divert a portion of their current Social Security retirement taxes into individually owned, privately managed personal retirement accounts. The funds in these accounts could be invested in a diversified portfolio of stocks, bonds, and other income-producing assets. Congress should use the federal budget surplus to cover any short-term transition costs associated with this reform.

Unlike USA accounts, these personal retirement accounts would be part of a real solution to Social Security's problems. They would enable all Americans to receive higher income in their retirement years while placing Social Security on sound financial footing.

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