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CAP Member Newsletter

In the years after 2010, the number of people over 65 will soar dramatically. This will place an enormous burden on government services such as Social Security and Medicare. Federal and State governments simply will not be able to provide the levels of support and care that aging Baby Boomers will require. Unless they start saving significantly more for their own retirement, Boomers won't be able to support themselves either. They will be forced to work well into their 70's or beyond. Those unable to work face a bleak future indeed.

Why don't we save more? Obviously, there are many reasons. Our tax code is a big part of the problem. Tax-sheltered retirement plans are too complicated and inaccessible to achieve maximum usage. Far too many Americans don't benefit from the savings incentives offered. Therefore, their retirement nest egg is smaller than it could be.

The Bush administration understands this. They have proposed sweeping changes to make tax-sheltered retirement and other savings plans simpler, more attractive, and more accessible.

Those who promote "class warfare" in this country will say the proposals favor the rich. Those who have a vested interest in keeping tax laws unintelligible to common citizens will attack the proposals vigorously. That is why we must take action as well.

Educate yourself regarding these proposals. Then, contact your senators and representatives and urge them to support the changes. And keep the pressure on!

A myriad of fragmented, complicated IRA vehicles and a slew of existing employer-sponsored savings vehicles such as 401(k), 457, and 403(b) plans would be replaced by three simpler plans with larger contribution limits. All of the plans would be open to everyone, regardless of income.

Lifetime Savings Account

Individuals could save as much as $7,500 (indexed for inflation) per year. While there would be no up-front tax deduction for contributions, earnings would grow tax-deferred and could be taken out tax-free at any time for any purpose. The LSA would be a powerful tool for those saving for shorter-term goals other than retirement. Individuals could roll over funds in other savings plans such as the Coverdell Education Savings Account.

Retirement Savings Account

The annual contribution limits would be the same as for the LSA ($7,500/yr. indexed for inflation). Earnings would grow tax-deferred and be tax free if withdrawn after age 58. Contributions would generate no immediate tax deduction. Existing Roth IRA's, which have the same tax treatment as the proposed RSA's, wouldn't be affected by the change though RSA's would replace Roth's.

The plan would phase out traditional (deductible and non-deductible) IRA's, which could be rolled into an RSA. Any traditional IRA savings rolled into a RSA before January 1, 2004 would be taxed (deductible contributions and earnings only) over four years. For conversions after that date, the tax on earnings would be due the year of the rollover.

Employer Retirement Savings Account

A myriad of employer-sponsored retirement savings accounts would be replaced by the ERSA. Savings limits would match current 401(k) limits. Individuals could contribute as much as $12,000 this year with that amount rising to $15,000 by 2006. Workers over 50 could contribute $14,000 this year and $20,000 in 2006. The proposal gives employers flexibility to decide how the accounts will be set up, including whether employees' contributions will be made with pre-tax money (as they are now with 401(k)'s) or with after-tax earnings.

Educate yourself and let your voice be heard regarding these important initiatives. As your Retirement Planning Specialists, we will be doing the same. Contact your Mutual Savings Personal Banker or FSI Representative for more information or for help in contacting your congressman or senator.