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Clinton Proposes Additional Retirement-Savings Benefit

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New York Sen. Hillary Clinton, continuing to hit on economic themes in her White House campaign, said the government should do more to help people save for retirement, and is proposing an annual tax credit of up to \$1,000 to help do that.

The Democratic presidential frontrunner's plan would allow households earning up to about \$100,000 a year without employer-provided 401(k) plans to open new "American Retirement Accounts," and get a tax credit matching contributions up to a maximum \$1,000. But the incentives would be available also to savers with 401(k)s or Individual Retirement Accounts. To offset the revenue lost, Ms. Clinton would not let the estate tax end in 2010 as scheduled under the Bush tax cuts.

The proposal takes aim at related problems: The large number of Americans with little or no retirement savings, as well as America's overall low savings rate. Ms. Clinton, who was in Iowa Tuesday on Day Two of this week's "Middle Class Express" tour, noted that more than 75 million workers have no pension, and more than half of Americans nearing retirement have \$15,000 or less in a retirement-savings account.

The Clinton campaign estimated the tax incentives would cost up to \$25 billion annually in foregone revenues, depending on how many people take advantage of them. Keeping the estate tax at the level scheduled to take effect in 2009, when it would apply to estates valued above \$7 million for a couple, would raise more than \$400 billion over a decade, the campaign said.

Under her proposal, people in households with incomes up to \$60,000 a year could get a tax credit to match their own savings of up to \$1,000 a year. Those with incomes between \$60,000 and \$100,000 could get a 50% credit on amounts up to \$500. For those above \$100,000, credits would be smaller until they phased out.

Income taxes would be deferred until withdrawal for savings up to \$5,000 a year. As with IRAs, early withdrawals would incur taxes and a penalty, except for what the campaign called "major life investments," such as college, a first home and retirement. But unlike IRAs, Ms. Clinton's plan would allow savers to withdraw up to 15% if unemployed for a long time, or to borrow from their savings under limited circumstances.

Savers could open diversified investment accounts at any private institution. Employers with direct-deposit arrangements would allow American Retirement Account savers to designate some earnings to go straight to their accounts, under the plan; employers without them would qualify for small tax breaks to establish direct-deposit operations.

For low-income Americans who benefit from means-tested government programs -- such as Medicaid and food stamps -- their savings wouldn't be counted as assets for purposes of determining their eligibility. Studies have shown that the asset-limits for government programs have been a major disincentive for poor workers to save money.

Individual account retirement plans, such as 401(k) plans and individual retirement accounts, or IRAs, represent an increasing share of Americans' retirement savings, the nonpartisan Employee Benefit Research Institute says. As of 2006, about \$7.5 trillion in assets were held in IRAs and private-sector defined contribution plans such as 401(k)s, up from about \$4.8 trillion in 2000.

Just over 40% of workers ages 21-64 owned a 401(k)-type plan or an IRA in 2004, up from 34% in 1996, although EBRI noted that the growth in the number of Americans participating in employer-sponsored defined-benefit plans has slowed in recent years. "Not just accumulating but also managing these retirement assets is a new challenge for new and future retirees, unlike many older retirees whose working careers spanned the time when employer-financed defined benefit pension plans [with annuity payments] were the norm," it added.

The concept of a federal savings match, using the tax code, has been promoted in nonpartisan think tanks and nonprofit foundations for years. Former President Bill Clinton considered the idea late in his term, as part of a comprehensive retirement-savings initiative that would have included fixing Social Security's long term finances. But the effort died as he became embroiled in impeachment by Republicans in Congress.

President Bush made it his priority to create new retirement accounts by letting workers divert Social Security payroll taxes, to invest on their own and to reduce the government's future obligations. But both parties in Congress opposed him.

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