

Federal Update 2004-10

March 30, 2004

TO: NCTR Membership
FROM: Cindie Moore
RE: President's Savings Package Will Be Introduced in Congress

The savings package proposed by President Bush is moving forward in Congress. Rep. Sam Johnson (R-TX) and Sen. Craig Thomas (R-WY) will reportedly introduce the package in legislative form on March 31.

The package, as outlined by the President in his Fiscal Year 2005 budget, has three parts:

- Lifetime Savings Accounts (LSAs) would allow individuals to contribute to new accounts and use the savings for any purpose.
- Retirement Savings Accounts (RSAs) would be similar to LSAs, but for retirement purposes only.
- Employer Retirement Savings Accounts (ERSAs) would consolidate the existing 401(k), 403(b), and 457 plans into one new plan.

Contributions to LSAs and RSAs would be after tax, although earnings on the contributions would not be taxed – like the existing Roth IRAs.

News reports have mentioned LSAs and RSAs only. Once the legislation is available, we'll know whether ERSAs are in it.

The President's package has received the endorsement of Americans for Tax Reform (ATR). ATR supports the conversion of the defined benefit plans of state and local government to defined contribution. The group's President, Grover Norquist, was quoted in *The Nation* magazine that he is planning to launch a campaign to dismantle and privatize state pension plans. He says, "just 115 people control \$1 trillion in these funds and we want to take that power and destroy it" (*The Nation*, May 14, 2001).

Congressional pension champions, Reps. Rob Portman (R-OH) and Ben Cardin (D-MD), have embraced a different approach. They are looking at a package that would drop LSAs and ERSAs, but retain RSAs. Their package would also contain helpful items

for governmental plans, such as expansion of portability, as well as provisions for private sector plans.

Once I have details on the legislation, I'll be back in touch.