

June 9, 2005

TAXREFORMPANEL.GOV:

re: Roth IRA

Thank you for taking the time to review this document. Let me start by pointing out the limitations that are inherent in this suggestion. I am acting as an individual, who happens to be the Executive Director of a small non-profit organization focused on financial education for children in the middle schools. (see: [www.KidsFutureUSA.org](http://www.KidsFutureUSA.org)) I do not have the resources or inclination to provide a detailed proposal for comprehensive reform. This is focused on the specifics of the Roth IRA, the opportunity it offers to our nation, and how we may be able to expand its positive impact.

## The Issues:

1) President Bush had brought to our attention issues regarding the future of the Social Security program and it has been pointed out that our Medicare program is in even worse financial shape than Social Security. While these are real issues for adults today, these problems are greatly increased for our children as we can expect that they will be living substantially longer than ourselves. Without getting into the details, an 18 year old today can expect to be living for over a quarter of a century after they reach retirement age. And that assumes that retirement age will continue to be gradually extended as it is being today.

2) There is a clear historical trend for the long term economic security of an individual to be moved from larger organizations and general charity, to the individual. This issue is perhaps 100 year old, as prior generations did not live long enough to be concerned. Where there was once the factory or

union lifetime pension that covered the worker and spouse, the pension programs are failing, and the 401K programs of today are mostly administered by the companies without making contributions. Employment patterns of today also make a long term contributions to a retirement plan difficult. Other countries that have attempted to have the government assume this burden, are have substantial difficulty meeting those obligations. Clearly this is an issue that is becoming the responsibility of the individual.

3) As there has been trend towards the adult individual being given the responsibility for their economic future, the opposite is happening to our youth. Our friends at OSHA and thousands of litigious lawyers have made it difficult for the kids of today to get jobs until they are well into high school. Unfortunately their attitudes towards work, consumption and financial security are often established in the middle school years. Kids think that money just comes out of the ATM or you can make all the money you will ever need by becoming a sports or movie star or by winning the lottery. The "Savings Makes Sense" program operating under the office of Massachusetts Treasurer Tim Cahill (<http://www.mass.gov/treasury/finedu.htm>, I sit on the steering committee) finds that student savings drops off from a robust start in the first grade until it is almost non-existent by the fifth grade.

4) The gap between the super rich and the poor in this country is growing rapidly and this can create a two class society that is clearly not what our founding fathers wanted and is likely to lead to dangerous social instability. At the same time the dream of upward mobility is fading as the reality of increasing class stratification become obvious. The problem here is that the correctly perceived lack of social mobility leads to an acceptance of "one's position in life", which directly hurts our economic productivity and the entire economy. Our history is of a nation of individuals trying to improve their situation, individually and collectively.

## The Opportunity

1) There are powerful financial and mathematical tools that exist today that did not exist or did not apply to working individuals as little as 10 years ago: the Roth IRA and the "Miracle" of Compound Interest. While Compound Interest is blessed with the infinite stability of a mathematical law (with all due respect to yourselves and our other fine lawmakers), its affect is only dramatic when it is applied over a long period of time. Traditionally, these tools are looked at for long term security far too late in life to have a major impact. How powerful are these tools? Investing \$1000 per year starting at 18 gives you a total amount invested of \$50,000 by 68, but by age 68 it is also generating over **\$100,000** per year in interest. An additional technical discussion of inflation, ROI, etc. is too long and involved to be done here and you have resources that can address those issues. The fact is very clear that Tax-free compound interest for 50+ years will generate a very substantial return.

2) It is difficult to get an 18 year old to save money for retirement. Very difficult. The current status of the IRA calls for the invested money to be earned and taxed income. It appears to me that this IRA bound money needs to be money that is not a pass-through from other sources. I strongly support the encouragement this offers to get kids working as soon as possible and for them to be **personally responsible** for their future economic security.

Our suggestion is to permit an individual to put money into a Roth IRA **from any source up to the amount the individual has received as taxed and earned income.**

This would permit parents (and grand parents) to offer support for their children's future that can be multiplied with Compound interest and the Roth IRA. Permitting an IRA before 18 would offer more advantages, but is more complex. At the same time it would be constructive to add penalties for

early withdraw to prevent abuse and poor decisions at age 22 when an exciting new truck is announced...

3) There are severe limits as to the effect a new law can have on our population. The latest Star Wars movie is likely to have more impact on most Americans than all the laws passed in Washington. President Bush knows this and has had a series of "town meetings" across the country to create visibility for his Social Security agenda. My suggestion may be a better answer to the Social Security issue and fits traditional Republican values: Personal Responsibility, Work, Earned Opportunity. The same visibility and excitement needs to be done for the new Roth IRA [how does the Bush-Roth IRA sound???] and the impact it can have on the future economic security of Americans. For our country to be productive we need to address the issues in item #4 above. We need to change attitudes and create self-efficacy among our youth. They need to feel "ownership" in their future and their country. Creating this legal change alone is not enough, but with "outreach" it can have major impact on the whole country. Let us not forget that American sales and marketing is one of the great economic strengths of our culture, and here is an opportunity to use it constructively.

## The Benefits

- 1) The most obvious benefit will be greatly enhancing the financial well being of millions of Americans as they reach the later stages of life.
- 2) The first benefit seen will be the financial inclusion of many people that now feel disenfranchised from America, show them that there really is a clear way for them to become wealthy in their lifetime and insure that their children will have a better future. Which then leads to increased productivity, enhanced social conditions and an economic benefit for us all.

2) It will also leave a wonderful legacy for those who make it happen, which then again will create more feelings of self efficacy, empowerment and inclusion for the general population. It will also address some critical viewpoints from abroad and create long term growth for our savings rate.

3) While the Social Security program is a classic Democratic "guaranteed social safety net", this suggestion is a classic Republican "opportunity if you want it" program. Frankly, I think that the two programs will work very well together, and much better than ether program alone.

4) Consider the impact that this could have on a family stuck in an ongoing cycle of poverty. As the "deep poverty" spokespeople will point out, you have to have some money to invest in a Roth IRA, but a parent saving just \$5 per week may give their next generation \$500,000 after 50 years. While, after inflation, that is not enough to provide a comfortable lifestyle, it would absolutely enough to fully fund a Roth IRA for the next generation and give that third generation a ticket to the middle class or more. And they have the benefits of "ownership": pride and inclusion.

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Thank you for your attention. As you might guess, I have more to say on this subject and would be happy to assist you in any way that I can. We have suggested a small change in an existing law that could be used as a major social and economic tool. Once enacted, the benefit of this change is likely to be directly proportional to the marketing effort put into program.

