NEW AMERICA FOUNDATION

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The America Saving for Personal Investment, Retirement, and Education Act
("The ASPIRE Act of 2009")

Introduction in the 111th Congress is Currently Pending

A Citizen's Guide to the ASPIRE Act: A Section-by-Section Summary of the Bill

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Section 1: The Name of the Act

The Act is named the "America Saving for Personal Investment, Retirement, and Education Act of 200" and can be cited as the "ASPIRE Act of 2009".

Section 2: ASPIRE Fund

This section establishes a Fund for Lifetime Savings Accounts in the US Treasury. The ASPIRE Fund can only be used for investment, distributions, and administrative expenses, as described in the Act. The money in the Fund comes from three types of government contributions: 1) automatic contributions, 2) supplemental contributions, and 3) matching contributions. In addition, private contributions to Lifetime Savings Accounts can be included in the Fund. **An automatic contribution** of $500 will be made to every individual with a Lifetime Savings Account. This amount will be adjusted for inflation every 5 years.

Section 3: Lifetime Savings Accounts

A "Lifetime Savings Account" (LSA) shall be established for every US citizen, national or qualified alien born after December 31, 2009. An account will be created after a child receives a social security number. Until the account holder turns 18, legal guardians perform all rights and duties related to the account. Finally, this section limits the amount of **private contributions** an account holder may make annually to $2,000. Contributions can also be made through voluntary payroll deductions or tax refunds until the account holder turns 18. The $2,000 limit in the Act will be adjusted for inflation every 5 years.

Section 4: Certifications Related to Government Contributions

This section defines how supplemental and matching contributions will be made. Every account holder is eligible to receive a one-time **supplemental contribution** if their family earned below the national median income in the prior taxable year. Account holders in families who earn *up to 75% of* the national median income receive $500; this $500 amount is reduced for account holders who earn between 75% and 100% of the national median income.

Every account holder in families who earn up to 75% of the national median income is also eligible to receive a 100% **matching contribution** for the first $500 of private contributions every year, until the account holder turns 18. For account holders earning between 75% and 100% of the national median income, the matching contribution is gradually phased out.

The account holder's "income" refers to the "modified adjusted gross income" of the account holder's family as defined in Section 221(b) of the Internal Revenue Code of 1986. The "national median income" refers to the median amount of modified adjusted gross income (as defined in Section 62 of the Internal Revenue Code of 1986) in a given year. This national median income shall be calculated for individuals and joint returns.

Section 5: Rules Governing Lifetime Savings Accounts Relating to Investment, Accounting and Reporting

The ASPIRE Fund Board is required to establish a default investment program similar to a lifecycle investment program. Under the default program, balances in Lifetime Savings Accounts are allocated to investment funds in the ASPIRE Fund based on the amount of time left for the account holder to attain the age of 18. Based on rules prescribed by the Executive Director, the account holder may choose from alternatives.

This section also establishes that the rules in Section 8438, 8439(b), 8439 (c), and 8439(d) of Title 5 apply to the ASPIRE Fund just as they apply to the Thrift Savings Fund, the retirement program for federal employees. These provisions establish the standard that the ASPIRE Fund will use for making investments, accounting oversight, fund disclosures, and level of risk.

Section 6: Tax Treatment of Lifetime Savings Accounts

Lifetime Savings Accounts will generally be treated in the same manner as Roth IRA accounts after accountholders turn 18 years of age, including contribution limits and distributions. However, unlike Roth IRAs, there will be parity between homeownership and post-secondary education uses. In addition to being not penalized, distributions for post secondary education should be tax-free.

No distributions shall be made from the account prior to the accountholder turning the age of 18. Accounts will have a minimum balance requirement equal to the initial automatic contribution until the accountholder attains age 59 ½, dies, or becomes disabled. After the accountholder turns 18 and before the accountholder turns 25, no amount shall be considered a qualified distribution unless it is paid directly to an institution of higher education.[1]

Non-qualified distributions from Lifetime Savings Account are first attributable to private contributions (no penalty), then earnings (penalties apply just as for Roth IRAs), and finally to government contributions. In the case of non-qualified distributions attributable to government contributions, the withdrawal is taxed at a 100%.

Account holders will have the choice to either keep their accounts within the ASPIRE Fund or rollout amounts saved in their Lifetime Savings Account to financial service providers offering privately-managed Lifetime Savings Accounts. Rollouts to privately-managed Lifetime Savings Accounts will be allowed but the ASPIRE Fund will remain as the default. Rollouts can occur anytime after the default account has been opened, but no one would be forced out of this system.

Roth IRAs are subject to minimum distribution requirements after the death of the IRA owner. These rules ensure that account balances are used for retirement purposes. Consistent with this, inherited Lifetime Savings Accounts must be paid out and cannot be used as an indefinite deferral mechanism.

Section 7: Private Management of Lifetime Savings Accounts

The tax code will be amended to include privately managed Lifetime Savings Accounts. These accounts shall be treated in the same manner as a Lifetime Savings Accounts held by the ASPIRE Fund as described in sections 3, 4, 5, and 6.

Section 8: ASPIRE Fund Board

This section establishes a ASPIRE Fund Board in the Executive Branch of the government. Sections 8472, 8474, 8475, and 8476 of Title 5 apply to the Board's composition, duties and responsibilities in the same way as they apply to the Federal

[1] An institution of higher education is defined in section 101 of the Higher Education Act of 1965

Retirement Thrift Investment Board which oversees the Thrift Savings Plan, the retirement plan for federal employees, subject to the provisions of this Act.

Section 9: Fiduciary Responsibilities

Sections 8477 and 8478 of Title 5 apply to the ASPIRE Fund and Lifetime Savings Accounts in the same way as they apply to the Thrift Savings Fund. The Secretary of Labor has the power to appoint an individual to investigate violations of these provisions. Money for administrative expenses can be used to buy insurance to cover fiduciaries with potential liabilities; agreements that purport to absolve the fiduciaries of their responsibilities are declared void.

Section 10: Assignment, Alienation and Treatment of Deceased Individuals

Rules relating to assignment and alienation in Chapter 84 of Title 5 (with respect to amounts held in accounts), shall apply to the ASPIRE Fund in the same way it applies to the Thrift Savings Fund, so that assignment and alienation (e.g., pledging a Lifetime Savings Account as security for a loan) are prohibited entirely regardless of whether the account is held in the ASPIRE Fund or in a privately-managed account.

If an account holder with a positive balance dies, the account is transferred to the deceased spouse, or the legal representative of the estate or to the person or persons entitled to the estate under the laws of the domicile.

Section 11: Accounts Disregarded in Determining Eligibility for Federal Benefits

This section states that amounts in Lifetime Savings Accounts cannot be used for determining eligibility for federal benefits, including student financial aid.

Section 12: Reports

This section requires an annual report to be submitted to Congress that includes a detailed description of status and operation of the Fund and management of the accounts, as well as detailed accounts of administrative expenses, including the methodology used.

Section 13: Programs for Promoting Financial Literacy

The Secretary of the Treasury, together with the Financial Literacy and Education Commission must develop programs to improve the financial literacy of account holders and their legal guardians.