



PROPOSED TAX WOULD IMPACT INVESTORS' RETIREMENT SAVINGS

Sen. Bernie Sanders and other house democrats introduced The Inclusive Prosperity Act of 2019¹ bill in May seeking to impose a financial transaction tax (FTT) on Wall Street and dampen high-frequency trading. And, presidential hopeful Sen. Elizabeth Warren is recommending using an FTT to fund her “Medicare for All” plan.

However, retirement plan industry experts view this proposed bill, not as a tax on Wall Street, but as a tax on Main Street. Should the bill move on to committee review next and then to Congress and pass, it would reduce long-term savings for the average American who is typically already struggling to save enough for retirement.

The proposed FTT would impose a 10-basis point tax on the sale of bonds, stocks or derivatives, but there does not appear to be any exemption for investments in 401(k)s, IRAs or pension plans.²

Congressional proponents of the bill state that the tax “could generate hundreds of billions annually in revenue, which, when invested, could help create millions of good-paying jobs,” and “will help limit high-frequency trading, which may be as high as 70 percent of the market and results in declining market stability through extreme price volatility, distorted market prices and structural vulnerability.”³

They go on to say that the tax would have little impact on the average investor. This is where the retirement plan industry disagrees.

- An analysis by Vanguard shows that American workers will have to work approximately two-and-a-half years longer to make up for the lost retirement savings due to this proposed tax.
- A separate report by Modern Markets Initiative found that an FTT would siphon off \$64,200 in “retirement tax” assuming an average investment of \$100,000 in a 401(k) and in an IRA over 40 years.⁴



In a recent study authored by James Angel, Ph.D. for the U.S. Chamber of Commerce, he said middle-class investors, “will pay the tax directly when they trade and pay it again as financial intermediaries pass on the taxes they face as a cost of doing business. FTTs are not actually a tax on financial intermediaries, they are a tax on investors.”⁵

Angel further stated that, “Under the version of the tax proposed by Sanders, a typical retirement investor will end up with 8.5 percent less in his or her 401(k) or IRA after a lifetime of savings. He explains, “If a worker saved \$1,500 each year for 46 years and earned 5.0 percent annually in a fund, the worker would accumulate \$239,550 by age 67, but if the return were reduced because of Sanders’s FTT, the accumulation drops to \$219,277, a reduction of \$20,273 or 8.5 percent. In dollar terms, the average IRA investor would have \$20,000 less at retirement as a result of this tax.”⁴

Similarly, the paper argues that the transaction taxes paid directly and indirectly by mutual funds will increase their costs and decrease returns to investors, harming mutual fund investors such as 401(k) participants saving for retirement. Angel further observed that transaction taxes paid by pension funds will reduce their returns, worsening existing problems with underfunded pensions and making it more costly for governments and private sector employers to provide pensions.

While it's anyone's guess as to whether this bill will make it into Congress for a vote, the idea of an FTT tax is one way democrats running for president are proposing to pay for far-reaching proposals such as "Medicare for All" and student loan debt forgiveness.

As always, your Mariner Wealth Advisors' Retirement Plan Solutions team will help keep you up to date on this and other proposed legislation that could impact how your associates save for retirement.

¹ "S. 1587: Inclusive Prosperity Act of 2019," <https://bit.ly/2X2ohJ1>

² "Warren's 'Medicare for All' Plan Taps Retirement Savings," <https://bit.ly/33DnzEh>

³ "S.1587 - 116th Congress (2019-2020)," <https://bit.ly/32wn79K>

⁴ Modern Markets Initiative Study, September 2019. <https://bit.ly/2Xv8cyn>

⁵ "Retirement Savings Would Be 'Hit Hard' by Financial Transaction Tax," <https://bit.ly/32BKqik>

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