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## IRA: WHOSE GOOD DEAL? by Bruce Poyer

The Individual Retirement Account, or IRA for short, has two highly publicized advantages. First, it permits the deferral of income taxes, to the savings limit of $2,000 a year (for an individual worker), or $2,250 a year (spousal account, one worker), or $4,000 a year (married couple filing jointly). Second, some very high interest earnings are currently being offered for IRA accounts. Fourteen percent rates guaranteed for 30 months were available in California in January.

### 1. Expansion of IRAs Under Reagan

Tax-deferred IRAs were originally authorized in 1974, and by 1979, there were 2.5 million such accounts, with savings totalling $3.2 billion. But the IRA was greatly expanded in the Reagan Administration's "Economic Recovery Tax Act of 1981." The tax deferral amounts were increased, and workers already covered by private pension plans were permitted to open IRA accounts. Also many more financial institutions are now able to offer IRAs, so that savers have a wider range of investment choices.

Both the savings and the interest earned on IRAs are tax deferred if left untouched until the age of 59-1/2, when they become taxable at regular rates. At that age, the full IRA amount can be withdrawn, or arrangements can be made for periodic payments beginning at any age. Withdrawals do not have to be made until age 70-1/2. Workers can be employed after 59-1/2 and continue to invest in the IRA. There are penalties and full taxes on IRA withdrawals before age 59-1/2. But the assumption is that most people will leave both savings and interest in the accounts until they retire, when they will be in lower tax brackets.

Money can be transferred from one type of investment or financial institution to another, and thus the IRA savers themselves have much more choice in their "investment policy" than any worker covered by a private pension plan. Of even greater importance, the IRA is completely portable from any one job or employment situation to any other. For most workers covered by private pension plans, the possible range of improvement in IRA portability is from 0 to 100.

Is the IRA therefore a universal good deal? The financial institutions have been carrying on a media blitz to get you to think so. They want your IRA savings badly, and it is probably healthy for them to compete for your dollars. But it pays to look at the IRA from several other points of view.

### 2. The IRA and Reaganomics

Reagan's 1981 tax bill gave to rich people the biggest tax cuts in the nation's history. The IRA was the only break offered to workers, but like the rest of the tax package, it was primarily for "rich" workers. It is clearly those in the highest tax brackets who benefit most from tax deferrals. A single person with a taxable income of $32,000 would be in a 40% tax bracket, and could profit a great deal from IRA tax deferral. But only about 10% of all employees earn this much. At most, only the top 20% of wage earners will obtain important tax benefits from IRA savings.

Both the IRA and the All-Savers program are unique parts of the Reagan Administration's economic approach. Like the tax bill of 1981 itself, they help to guarantee high interest rates in the future, because they reduce the government's present tax revenues, and may therefore lead to more deficit financing. That in turn would force higher interest rates.

The Administration's preferred alternative to more deficit financing is more budget and program cutting (except, of course, for the military). But the effort to reduce budget deficits even now puts Social Security in increasing danger. The Administration can now argue that you should provide for your own retirement security. It is thus moving to substitute individual savings programs like IRAs for the most important national worker security program ever developed in our country.

With the thrust put on higher interest rates, the Administration's economic policies have failed to date to stimulate economic revival. There is no good reason to believe that similar policies can survive in the long run. Such policies may not even survive the 1982 Congressional elections. Coupled with a renewed attack on Social Security, the Administration can deprive the great majority of the nation's wage earners of far more in benefits than a few relatively wealthy workers can possibly gain through IRAs--no matter how high interest rates go.

3. What will Unions do with IRAs?

It was possible under the original 1974 IRA provisions to establish a group IRA as a negotiated pension plan. In the Bay Area bargaining unit of the California Nurses Association, employees were given the option several years ago of continuing with the negotiated pension plan or switching to an IRA plan, which most of them did. Employee representatives are now involved in decisions about how and when to invest IRA savings at the best rates of return. But all those who opted for the group IRA still have individual accounts which are fully portable. The 1981 tax law now governing IRAs makes it easier for labor-management bargaining units to develop similar group IRAs.

It is still not clear to what extent union representatives will be interested in becoming involved in collective bargaining decisions about how to structure a group IRA, how to relate it to the existing pension plan, whether to make it voluntary or supplemental or both, and how to arrange to place the IRA savings in the investment stream. However, many unions do represent workers with higher skill levels, higher earnings, and a lot of job mobility. If they also have pension plans with poor interest earnings over the past decade (most of them do), and if they have virtually no portability in their negotiated plans (most of them do not), they will find their members very interested in IRAs.

In addition, the possibility of bargaining for a group IRA is in no way limited by the existence of a negotiated plan which may never be able to offer retirement protection comparable to the combination of IRA and Social Security. And the IRA interest rates are currently very high--even if the greatest tax advantages accrue only to those in the highest tax brackets. Therefore, many pension plan trustees will not be able to carry out their fiduciary responsibility if they do not investigate carefully the possibility of a negotiated IRA option.

The fact remains that most workers are simply not rich enough to have much to gain from any of Reagan's economic policies, including the IRA and the All-Savers program. And all workers have too much to lose if Social Security is decimated by the Reagan Administration. Further, existing pension plans can be vastly improved by taking proper advantage of the same high interest earnings now extolled in every IRA commercial. Therefore, employers are likely to be taking more initiative than unions in encouraging IRA programs for workers, and it is likely that there will be more IRA development in non-union than in unionized sectors.

- Bruce Poyer