

Trust & Investment Management Group



A Note from the Author

My name is Mike Davidoff, and I am an Investment Officer in the Trust and Investment Management Group at the Bank of Ann Arbor. I am a curious and passionate lifelong student and practitioner of personal finance and investing. I work with a dynamic group of talented and creative professionals, and we have a mission and mandate to help our clients with their financial health and wellness.

Our team is starting a monthly blog, and today is entry number one. We know there is no shortage of content in the world today competing for your attention. We aim to touch on issues that are both local and national. We are grateful that you have taken the time to spend with us.

We decided that a blog presents an opportunity to engage with our community on interesting topics that we come across as a team. We have daily internal discussions as a team and external conversations with our clients that introduce us to many unique and interesting stories and circumstances that teach us. We know there is plenty to talk about, especially right now.

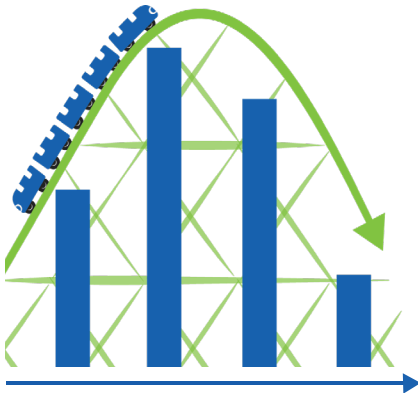
Our intention is for you to learn something, laugh a couple of times, talk about a topic with your peers, and walk away feeling a little more empowered about your own financial wellness journey.

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4 out of 10 adults do not have at least \$400 in emergency savings to pay for an unexpected, non-budgeted expense like a flat tire or a root canal.

Life is expensive. Saving money is hard.



The path to retirement and financial independence at times feels like a rollercoaster (think Space Mountain at Disney or The Gemini at Cedar Point) and at times like an eight hour car ride with your spouse and young kids (“are we there yet, are we there yet?”).

As a society, we need effective behavioral finance tools, tricks and incentives that help equip individuals, families and organizations with the best chance to achieve financial safety, security and richness (in whatever definition that means to one’s goals).

We also need safety nets for the inevitable curve balls that life will throw our way. Whether the source is global in nature (pandemics, recessions, inflation) or personal (job loss, health crisis, business hiccups), financial setbacks of different magnitudes are more than likely to present themselves.

There was a now famous report issued by the Federal Reserve Board in 2018

that suggested that four in ten adults do not have at least \$400 in emergency savings to pay for an unexpected, non-budgeted expense like a flat tire or a root canal. The current economic crisis has been over indexed to many in our country who were already vulnerable to a setback such as lower income wage earners and/or those with little in savings.

One potential tool that may help to improve this situation is the idea of a Universal Savings Account (“USA”). A USA is a tax-advantaged plan that incentivizes individuals to choose savings and investments over current consumption for the purpose of “everyday savings”. The idea is that you can contribute after-tax income to a qualified savings/investment account, grow the money tax-free, and withdraw from the account at any time with no early penalty and no tax obligations on investment gains.

One potential tool that may help improve this situation is the idea of a Universal Savings Account (“USA”).

This would help to fill out the current tax-favored savings and investment tools in America in the areas of:

- ▶ Retirement savings (401(k), 403(b), IRAs)
- ▶ Health care expense savings (Health Savings Accounts)
- ▶ Education savings (529 plans)
- ▶ Everyday savings (Universal Savings Account)

Skeptics may argue that this would be another tool in the toolkit for the upper middle class and the wealthy to continue to shield taxes and exacerbate the income

inequality in our country. This has not been proven to be the case in Canada and the United Kingdom, which have had USA equivalents implemented since 2009 and 1999, respectively.

The data shows that USAs are particularly popular for lower income workers as well as younger workers. They benefit from the all-purpose nature of the accounts and simplicity. They are available to anyone, with no minimum contribution requirements and no restrictions or penalties for withdrawals.

In both Canada and the UK, there is evidence that low income individuals save more in USA equivalents relative to income than high income earners. This may be partly due to the fact that this cohort of individuals are more sensitive to the fear of not having access to their contributions (like a 401k), so a USA removes this mental hurdle.

Congress has attempted to pass Universal

Savings Account acts several times over the past twenty-five years. This has not been a bipartisan issue. Most recently, the Family Savings Act of 2018 was floated as part of the “Tax Reform 2.0” legislation that did not pass.

We are going to need a lot of solutions to address major societal concerns that exist today such as growing income inequality, racial inequality, increasing dependence on government safety nets, increasing government levels of debt – you name it. USAs appear to be an effective policy and savings tool based on the experience in Canada and the UK. This is one that seems to make sense for societal good.



Tax Free Savings Account
Canada
est. 2009

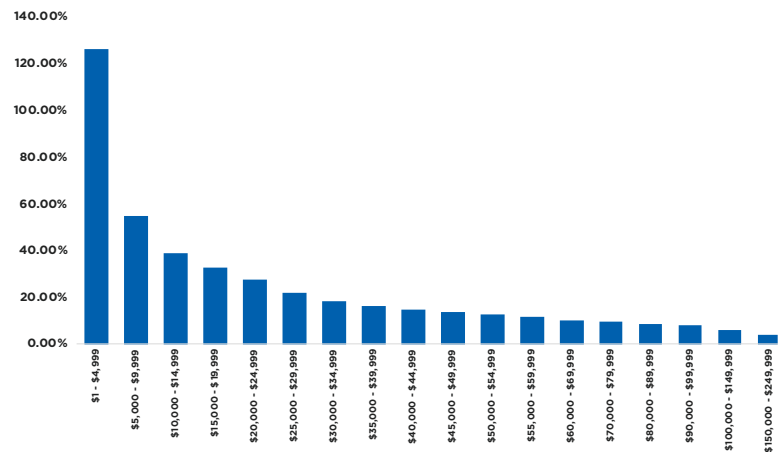


Individual Savings Account
United Kingdom
est. 1999

For more information on USAs, see the Tax Foundation report link (“The Case for Universal Savings Accounts”). <https://files.taxfoundation.org/20190226134708/The-Case-for-Universal-Savings-Accounts.pdf>

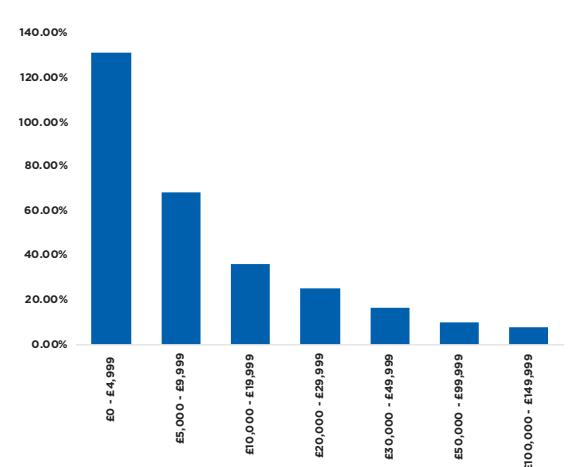
Low-Income Individuals Save More in TFSAs Relative to Income in Canada

Average TFSA Contributions as a Percent of Income



Low-Income Individuals Save More in ISAs Relative to Income in The United Kingdom

Average ISA Contributions as a Percent of Income



The logo for Bank of Ann Arbor, featuring the text "bank of ann arbor" in a white, lowercase, sans-serif font. The word "of" is smaller and positioned between "bank" and "ann". The logo is contained within a blue rounded rectangle with a white border.

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We love to help.
How can we help you?

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