Universal Savings Accounts: A Flexible Financial Tool to Support the Gig Economy

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Executive Summary

The rise of the independent workforce presents challenges and opportunities for policy makers who wish to remove barriers to a future with diverse work options. A universal savings account (USA) would provide a flexible savings option to support the gig economy. Current federal policy is designed to regulate and give preference to employee retirement benefits provided as part of the traditional employer-employee relationship. Even when an independent worker can set up an independent retirement account, the existing matrix of savings accounts is poorly suited for many gig workers. USAs are one reform to help level the playing field for independent workers; the single, simple, and flexible all-purpose savings account would help all workers, with the biggest benefits for independent and gig workers.

Introduction

Over the last decade, the shift to gig-economy work has become an increasingly important economic trend that has changed the way millions of Americans earn a living. Public policy designed for twentieth-century employer-employee relationships has not kept up with the changing workforce, and in many respects, it creates barriers to flexible, contract-based, and platform work. The federal tax code is one source of complexity, cost, and confusion for gig workers. The tax code was designed with traditional work arrangements in mind, with less thought given to independent workers. One glaring example of this bias is in retirement savings accounts—such as 401(k)s and IRAs—which are poorly suited for the needs of gig workers. Gig workers need a more flexible savings option that is not tied to employers or restricted to retirement. A universal savings account (USA) would provide such a flexible savings option.

The gig economy is generally made up of nontraditional work arrangements that are made possible by smartphone technology and online connectivity. The advent of online platforms to connect previously unrelated buyers and sellers has allowed people to find enough contingent work to supplement or entirely replace traditional employment. Platform-gig workers are distinct from traditional contingent-contract workers who develop a clientele through their own marketing and word-of-mouth relationship building. Such traditional relationships are characterized by unique contracts and direct payments. By mediating payment and offering other services such as reviewing systems for accountability, online platforms allow a greater number of people to offer their property and services to a much larger pool of interested customers.

In the context of the tax code, many of the costs faced by gig workers are familiar to small businesses and independent contractors. However, platforms have lowered the cost of contingent work and thus attracted many more workers who are generally less familiar with the complexities of the tax code and less prepared to navigate a system that is not designed for them. There are myriad complexities in calculating, reporting, documenting, and remitting taxes to the IRS. Some of these include self-employment taxes, reporting irregularities, and expense deductions. This paper focuses on existing tax-preferred retirement accounts which are poorly suited savings vehicles for the gig economy. Rather than restrict these savings vehicles to special designated purposes, a USA would better allow contingent workers to save for what they prioritize.

Universal Savings Accounts

A USA would lower taxes on personal savings by removing taxes on investment earnings on funds held in the USA account. The US income tax system double taxes savers and investors by first taxing workers' wages and then taxing any earnings on the wages that are saved. The returns to saving—interest, dividends, and capital gains—are thus tax disadvantaged, hit by at least two layers of taxes. This savings penalty lowers Americans' total savings and encourages them to instead spend more of their income when it is earned. Although not the focus of this paper, when tax systems discourage saving, it slows capital formation, which in turn slows income and GDP growth.[1]

One offsetting factor that reduces the tax penalty on saving is by making the capital gains and dividend tax rates lower than the income tax rate. The top income tax rate is 37 percent, and the tax rate decreases as income decreases. The top long-term capital gains and qualified-dividend tax rate is 20 percent, stepping down to 15 percent for those making less than $434,551 and exempting gains for those with incomes below $39,376 (figures are for single filers).[2] Special-purpose savings accounts, such as individual retirement accounts (IRAs) and 401(k)s, also help protect deposited savings from taxes on investment gains. These qualified savings accounts lower taxes on savers, which increases the incentive for and benefit of saving.

An example: Two people in the 24 percent income tax bracket save $5,000 of pretax income this year. Saver A pays the 24 percent marginal tax rate on her $5,000 and deposits $3,800 into a qualified Roth savings account. As shown in table 1, if the savings earn a 7 percent rate of return, after thirty years the account will hold $31,031 with no additional taxes due. Saver B saves $5,000 of pretax income this year but does not deposit it in a qualified savings account. He has to pay income tax on his contribution and a 15 percent tax on his capital gain. His effective marginal tax rate when he withdraws the money in thirty years is 34 percent, and he is left with $26,947, $4,000 less than Saver A.

Table 1: How universal savings accounts protect earnings from additional layers of tax

	Roth IRA or Roth USA	Savings outside qualified accounts
Pretax contribution	$5,000	$5,000
Income tax paid on contribution (24% tax rate)	$1,200	$1,200
Value of account, year 1	$3,800	$3,800
Value of investment, year 30 (7% rate of return)	$31,031.45	$31,031.45
Income tax paid on capital gain (15% tax rate)	$0	$4,085
After-tax value of savings	31,031	26,947
Effective tax rate	24%	34%

1 Alan D. Viard, "Capital Income Taxation: Reframing the Debate," American Enterprise Institute, *Economic Perspectives*, July 2013, https://www.aei.org/research-products/report/capital-income-taxation-reframing-the-debat; Timothy S. Gunning, John W. Diamond, and George R. Zodrow, "Selecting Parameter Values for General Equilibrium Model Simulations," National Tax Association Proceedings of the 100th Annual Conference on Taxation, 2008, 43–49.

2 Lower capital gains taxes and lower corporate income taxes are just two of several modifications to the pure income tax system, intended to mitigate the most economically damaging features of the income tax. Robert M. Haig, "The Concept of Income—Economic and Legal Aspects," in *The Federal Income Tax* (New York: Columbia University Press, 1921), 1–28.

Like existing special-purpose saving accounts, a USA would reduce taxes on saving by eliminating taxes on capital gains, dividends, and interest earned on an investment held in the account.[3] Each taxpayer would be able to place an annual contribution of up to $10,000 of after-tax income (after income and payroll taxes) into a personally owned savings account. Employers, relatives, or anyone else could also make contributions on behalf of the account owner up to the account holder's annual limit. Platforms could deposit money into the accounts without triggering employment laws that currently prohibit firms such as Uber from enrolling their contractors in automatic payment plans. Private financial institutions would administer the accounts, and investors would have a wide range of investment options.

The key distinction from existing retirement accounts is that taxpayers would be able to withdraw their money from a USA for any reason at any time and spend it without limitations. In current retirement accounts, a 10 percent penalty is triggered if the funds are accessed prior to retirement; and qualified accounts for health and education are restricted to their narrow purpose. When funds are withdrawn from the USA, they will not be included in taxable income and will not face any additional layers of tax.[4] The lack of restrictions and a wide range of investment options are the crucial differentiations that makes USAs ideal for gig workers and people currently not using a qualified savings account.

Who Is the Gig Worker?

The gig economy includes four common types of freelance work: transportation services, nontransport work (for example, dog walking or home repair), independent sellers, and the leasing sector. Among these categories, transportation services, such as Uber or Lyft, are currently the largest and historically the fastest growing. Otherwise-unemployed and young workers are more likely to participate in gig work, but a significant fraction of older Americans use gig work to supplement retirement income.[5]

Measures of the size of the gig economy vary widely and ultimately diverge based on how workers are classified. In the broadest estimates, more than a third of US workers participate in the gig economy. The Federal Reserve finds that 30 percent of adults engaged in independent work in 2018.[6] A Gallup survey finds that 36 percent of workers participated in alternative work arrangements for part-time or full-time employment. These measures include not only new-platform work, but also independent contractors and on-call workers.[7] For the narrower category of the "online-platform economy," JPMorgan Chase finds that 4.5 percent of families earned income from one or more of the 128 software platforms in 2018.[8] Estimates from the Bureau of Labor Statistics show that in 2017, 10.1 percent of the US workforce had alternative work arrangements as their full-time job.[9]

Most of the diverging estimates agree that alternative work arrangements are becoming increasingly popular as they provide flexibility and better matching for workers, consumers, and businesses. However, continued growth is not guaranteed. Unions and other competitors are trying to use the political system to limit the growth of flexible work arrangements. Efforts such as California Assembly Bill 5 attempt to

3 Adam N. Michel, "Universal Savings Accounts Can Help All Americans Build Savings," Heritage Foundation Backgrounder No. 3370, December 4, 2018, https://www.heritage.org/taxes/report/universal-savings-accounts-can-help-all-americans-build-savings.

4 USAs could also be set up in the traditional style, in which the contribution is deducted from taxable income and grows tax free and taxes are paid at withdrawal. These two treatments are economically equivalent if a taxpayer's marginal income tax rate remains constant over time. The traditional style also taxes any "supernormal returns."

5 Diana Farrell, Fiona Greig, and Amar Hamoudi, "The Online Platform Economy in 2018: Drivers, Workers, Sellers, and Lessors," JPMorgan Chase Institute, 2018, https://institute.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/institute-ope-2018.pdf.

6 Board of Governors of the Federal Reserve System, "Question GE40b, Appendix B: Consumer Responses to Survey Questions," *Supplemental Appendixes to the Report on the Economic Well-Being of US Households in 2018*, May 2019, https://www.federalreserve.gov/publications/2019-supplemental-appendixes-report-economic-well-being-us-households-2018-overview.htm.

7 Shane Mcfeely and Ryan Pendell, "What Workplace Leaders Can Learn from the Real Gig Economy," Gallup, August 16, 2018, https://www.gallup.com/workplace/240929/workplace-leaders-learn-real-gig-economy.aspx.

8 Diana Farrell, Fiona Greig, and Amar Hamoudi, "The Online Platform Economy in 2018: Drivers, Workers, Sellers, and Lessors," JPMorgan Chase Institute, 2018, https://institute.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/institute-ope-2018.pdf.

9 Bureau of Labor Statistics, "Contingent and Alternative Employment Arrangements," news release, June 7, 2018, https://www.bls.gov/news.release/conemp.htm.

force a larger number of workers into the traditional employer-employee relationship, raising costs and reducing flexibility.[10]

Gig work is often lower paying and less regular than traditional work arrangements. Gig workers tend to work fewer hours and tend to be more concentrated in lower-paid sectors. Not adjusting for hours worked or occupation, a Prudential study finds that gig workers earn about 58 percent less than full-time employees.[11] The Federal Reserve reports that among those engaging in gig work as their primary source of income, 58 percent would have difficulty paying an unexpected expense.[12] More than half of all gig workers do not have access to employer-sponsored benefits such as health insurance and retirement savings plans.[13]

Gig workers value the flexibility and freedoms that come with jobs in which they can better set their own schedules. In one survey, 64 percent of gig workers reported doing their preferred type of work.[14] Among higher-paid workers and professionals in traditional work arrangements, flexible work is becoming more widely available. However, lower-wage workers have more limited access to flexible work in the traditional employer-employee environment. Gig work offers this flexibility. In an analysis of the wage responsiveness of Uber drivers, M. Keith Chen and coauthors estimate that flexible work arrangements—such as those enjoyed by Uber drivers—are valued by drivers at 40 percent of the driver's expected earnings.[15] Reducing barriers to gig work could provide more flexibility and value to workers.

The U.S. Tax System Discourages Gig-Economy Saving

Although data on retirement readiness in the gig workforce are limited, survey responses suggest that gig workers are half to two-thirds as likely to have access to employer-sponsored retirement plans, compared to their traditionally employed counterparts.[16] Among those who have access, a Prudential survey finds, "only 16% have assets in an employer-sponsored retirement plan, compared with 52% of workers with full-time jobs."[17] By its nature, gig work circumvents the traditional employer-employee contractual arrangement, so it should be expected that gig workers would have less access. Non-employer-sponsored retirement vehicles do exist for the independent workforce; however, uptake is low. About 8 percent of primarily self-employed workers contributed to a retirement account, compared to 42 percent of traditional workers, in data from 2014 analyzed by the US Treasury's Office of Tax Analysis.[18]

The lower uptake of tax-advantaged accounts among gig workers partly follows from their having fewer resources to contribute, but it is also caused by design flaws in the current qualified-account system. Complexity and single-purpose accounts depress uptake. Even if an independent worker is able to set up a retirement account or has access through another employer and wants to save, the existing matrix of savings accounts is poorly suited for many gig workers. Gig-economy workers tend to be younger, earn

10 AB-5, Worker status: employees and independent contractors (2019–2020), https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201920200AB5.
11 Prudential, "Gig Economy Impact by Generation," 2019, https://www.prudential.com/wps/wcm/connect/1b4fcef8-afc0–4c87-bc12–2ace844aecb3/Gig_Economy_Impact_by_Generation.pdf?MOD=AJPERES&CVID=mMoGiuO.
12 Board of Governors of the Federal Reserve System, *Report on the Economic Well-Being of US Households in 2018*, May 2019, 20, https://www.federalreserve.gov/publications/files/2018-report-economic-well-being-us-households-201905.pdf.
13 Prudential, "Gig Economy Impact."
14 Shane Mcfeely and Ryan Pendell, "The Gig Economy and Alternative Work Arrangements," Gallup, August 2018, https://www.gallup.com/workplace/240878/gig-economy-paper-2018.aspx.
15 M. Keith Chen, Judith A. Chevalier, Peter E. Rossi, and Emily Oehlsen, "The Value of Flexible Work: Evidence from Uber Drivers," National Bureau of Economic Research Working Paper 23296, March 2017, http://www.nber.org/papers/w23296.
16 John Scott, Alison Shelton, "How Well Are Independent Workers Prepared for Retirement?," Pew Charitable Trusts, June 28, 2019, https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2019/06/how-well-are-independent-workers-prepared-for-retirement.
17 Prudential, "Gig Economy Impact."
18 E. Jackson, A. Looney, and S. Ramnath, "The Rise of Alternative Work Arrangements: Evidence and Implications for Tax Filing and Benefit Coverage," working paper, US Department of the Treasury, Office of Tax Analysis, Washington, DC, 2017, https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/WP-114.pdf.

less income, and have less certain income streams compared to their peers. Each of these characteristics makes people less likely to save for retirement. By placing restrictions on special-purpose saving accounts and penalties on non-authorized withdrawals, the accounts are made less attractive to the independent workforce.

The rules and penalties associated with retirement savings accounts are a smaller barrier for more affluent Americans than other Americans. The barrier primarily discourages younger, low-income, and middle-income Americans from saving for fear of locking up limited resources for multiple decades. Workers who contribute to a retirement account and unexpectedly have a slow month or face another negative income shock risk penalties if they improperly access their savings. Because the system is designed for stable employment and retirement-only saving, the tax penalties and regulatory hurdles are designed to increase the cost of accessing retirement savings early.

Americans who have retirement savings accounts too often use them to cover emergency expenses by withdrawing or borrowing from them. This "leakage" from retirement accounts reduces balances by about 25 percent.[19] Taxes and rules, intended to increase the cost of accessing retirement savings early, make the problem of leakage worse by forcing struggling savers to withdraw additional funds to pay the 10 percent early withdrawal penalty.[20] Even if they withdraw funds for designated reasons (for example, qualifying emergency, first-time home purchase, or disability), savers often still face penalties for running afoul of strict, hard-to-follow rules.

Complex rules and early-withdrawal penalties on retirement saving mostly harm low-income households and independent workers with unstable incomes. The complexity discourages less sophisticated savers from using the accounts at all, and taxes on early withdrawals are largely paid by the lowest-income Americans needing emergency funds. Research from the Internal Revenue Service predicts that the lowest-income group in its study is "more likely than other income groups to take a net taxable withdrawal when they experience an income shock."[21] A study by the Urban Institute similarly finds that the likelihood of early withdrawal "is highest among the youngest adults, those without college degrees, blacks, and those with the lowest income and assets."[22]

The inflexibility of the retirement-savings system can lock many independent workers out of the savings system altogether. Under existing rules, the tax code removes taxes on saving for retirement, education, and health expenses. Saving for multiple purposes and saving for future unknowns remain tax disadvantaged. Gig workers who want to start saving but are unsure whether they are ready to put their money away until retirement are forced to save outside of the tax-advantaged system and must pay investment taxes, which shrink personal wealth and lower their overall level of saving.

Complexity also lowers uptake. The IRS lists thirteen different private retirement accounts, each with its own eligibility rules, income and contribution thresholds, early-withdrawal penalties, and employer requirements.[23]

For gig workers, the easiest way to save is to use a regular IRA, available to all taxpayers; however, the annual contribution limit is only $6,000 a year for most workers (compared to $19,500 for employer-provided 401(k)s). The second option is the "savings incentive match plan for employees," or SIMPLE IRA. While those who are self-employed can use these accounts, they are primarily designed for small busi-

19 Anne Tergesen, "The $210 Billion Risk in Your 401(k)," *Wall Street Journal*, October 10, 2018, https://www.wsj.com/articles/defaults-on-401-k-loans-dent-retirement-wealth-1539192648.

20 Each plan has different rules that allow certain qualified early distributions. Internal Revenue Service, "Plan Feature Comparison Chart: Choose a Retirement Plan," https://www.irs.gov/pub/irs-pdf/p4484.pdf.

21 Robert Argento, Victoria L. Bryant, and John Sabelhaus, "Early Withdrawals from Retirement Accounts during the Great Recession," Internal Revenue Service, November 2013, https://www.irs.gov/pub/irs-soi/14rpearlywithdrawalretirement.pdf.

22 Barbara A. Burtrica, Shelia R. Zedlewski, and Philip Issa, "Understanding Early Withdrawals from Retirement Accounts," Urban Institute Retirement Policy Discussion Paper No. 10-02, May 2010, http://beta.accesstofinancialsecurity.org/sites/default/files/UnderstandingEarlyWithdrawalsfromRetirementAccounts_UrbanInstitute_1.pdf.

23 Internal Revenue Service, "Types of Retirement Plans," https://www.irs.gov/retirement-plans/plan-sponsor/types-of-retirement-plans.

nesses. In a SIMPLE IRA, an independent worker must follow the employer match rules, which require setting aside money from both the "employer" and "employee" side (since someone who is self-employed is technically both employer and employee).[24] Similarly, the Simplified Employee Pension IRA requires contributions to be made by the "employer" and thus can create confusion for gig workers who do not think of themselves as employers.[25] Lastly, Solo 401(k)s are also an option for the self-employed, but they require additional paperwork to open the account and can often require annual reporting to the IRS.[26] All this complexity discourages uptake.

A related reform Congress should consider is creating a safe harbor for contract workers so that firms such as Uber could set up retirement plans and automatic enrollment for their drivers without triggering formal employment status.[27]

Universal Savings Accounts Could Help the Gig Economy Boost Savings

The introduction of a USA would allow more Americans to access the savings benefits that are currently only available for those who are fortunate enough to save for retirement, education, and health care. We should expect USAs to boost personal savings because similar accounts have been shown to increase the amount of money people put away and the accounts allow people to keep more of their own money, increasing available funds by shrinking the government's take.

Evidence from the introduction and expansions of retirement savings accounts shows that households save more when given the option to save without the additional income tax penalty. Daniel Benjamin estimates that roughly 50 percent of 401(k) balances represent new private savings, as opposed to savings shifted from taxable accounts.[28] Hubbard and Skinner find that a "conservative estimate of the effect of IRAs on personal saving" shows that 26 cents of every dollar of IRA contributions represents new savings. They suspect the true effect "is actually somewhat larger."[29] Poterba, Venti, and Wise similarly find "strong support for the view that the bulk of IRA and 401(k) contributions are net additions to saving."[30] Raj Chetty and Emmanuel Saez find similarly large effects of lower taxes on capital gains and dividends.[31]

Other studies find only small increases to household saving from tax changes. Engen, William, and Scholz review five reasons they believe the savings literature overstates the impact of tax incentives on saving.[32] Highlighting one of these reasons, Raj Chetty and coauthors find that after a 1999 tax reform, only 1 per-

24 Internal Revenue Service, "SIMPLE IRA Plan," January 15, 2020, https://www.irs.gov/retirement-plans/plan-participant-employee/who-can-participate-in-a-simple-ira-plan.

25 Internal Revenue Service, "Simplified Employee Pension Plan (SEP)," January 15, 2020, https://www.irs.gov/retirement-plans/plan-sponsor/simplified-employee-pension-plan-sep.

26 Form 5500-SF, https://www.dol.gov/agencies/ebsa/employers-and-advisers/plan-administration-and-compliance/reporting-and-filing/form-5500.

27 A temporary version was recently proposed in Congress. See, Reps. Miller and Foster Lead Bipartisan Letter to Support Gig Economy Workers During COVID-19 Pandemic, March 23, 2020, https://miller.house.gov/media/press-releases/reps-miller-and-foster-lead-bipartisan-letter-support-gig-economy-workers.

28 Daniel J. Benjamin, "Does 401(k) Eligibility Increase Saving? Evidence from Propensity Score Subclassification," *Journal of Public Economics* 87 (2003): 1259–90, https://pdfs.semanticscholar.org/bb24/812845012f56b908170f6634dc679d8a0f6c.pdf.

29 R. Glenn Hubbard and Jonathan S. Skinner, "Assessing the Effectiveness of Saving Incentives," *Journal of Economic Perspectives* 10, no. 4 (Fall 1996): 80, https://pubs.aeaweb.org/doi/pdf/10.1257%2Fjep.10.4.73.

30 James M. Poterba, Steven F. Venti, and David A. Wise, "How Retirement Saving Programs Increase Saving," *Journal of Economic Perspectives* 10, no. 4 (1996): 91–112, https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.10.4.91.

31 Jesse Edgerton revises these short-term results downward in a 2010 paper but concludes that "it might take years or decades for the full effect of tax changes to appear in data on aggregate dividend payouts." Raj Chetty and Emmanuel Saez, "The Effects of the 2003 Dividend Tax Cut on Corporate Behavior: Interpreting the Evidence," University California–Berkley, n.d., https://eml.berkeley.edu/~saez/chetty-saezAEA06.pdf; and Jesse Edgerton, "Effects of the 2003 Dividend Tax Cut: Evidence from Real Estate Investment Trusts," Federal Reserve Board, 2010, https://www.federalreserve.gov/pubs/feds/2010/201034/201034pap.pdf.

32 Eric M. Engen, William G. Gale, and John Karl Scholz, "The Illusory Effects of Saving Incentives on Saving," *Journal of Economic perspectives* 10, no. 4 (1996): 113–38, https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.10.4.113.

cent of the change in retirement-account contributions represented a change in total savings.[33] This result suggests that most savings-account contributions are simply transfers of existing savings from taxable to nontaxable accounts. Other studies also find that retirement savings accounts and other savings incentives have small short-run effects on savings.[34]

Even if retirement accounts do not have an outsized impact on short-run savings, lower-income savers tend to be most responsive. Heim and Lurie find that tax incentives increase the number of participants (and thus their savings) but do not increase contributions among those already enrolled. Lower-income taxpayers were most responsive to the tax changes.[35] Even small increases in savings compound over time. Despite finding a small short-run effect, Engen, Gale, and Scholz find that over the course of thirty years or more, qualified retirement savings accounts can raise national savings between 3 percent and 17 percent.[36] Over time, this represents a "substantial cumulative impact on the capital stock," as noted in a paper by McCarthy and Pham.[37]

All of the existing research on the impact of tax-preferred accounts looks almost exclusively at savings for retirement. Lower uptake rates can likely be partly attributed to account restrictions. Requiring that savings be for retirement only can increase the cost for many, especially lower-income, taxpayers. It is true that behavioral research shows that people are generally not as good at planning for the future as economic models can predict.[38] But USAs would simply make it easier for those who want to begin saving.

The incentive to save in tax-preferred accounts is also diminished, but still present, for tax filers who have low-enough income that they currently do not have to pay capital gains or dividends taxes.[39] The 0 percent tax rate applies to single taxpayers with adjusted gross income of up to $39,375, or $78,750 for married couples filing jointly, in 2020. Incomes tend to rise significantly over a person's lifetime, so while a saver today may not have to pay capital gains taxes, once she is ready to spend the savings, it is more likely that she will be in a higher tax bracket. Static analysis of the percentage of taxpayers below the 15 percent capital gains tax threshold is thus misleading. USAs are also a structural reform to protect future savers from proposals to tax capital gains at income tax rates, which would substantially increase the burden of investment taxes on lower-income families.[40]

Accounts like USAs have proven successful around the world. Canada and the UK have programs that are ideal models for the United States and show the success of more flexible savings options. Both examples are simple Roth-style accounts (taxes are paid before funds are deposited) that are widely popular with savers of all income levels. Following the introduction of the accounts, moderate-income households were the most responsive in both countries.[41]

33 Raj Chetty, John N. Friedman, Søren Leth-Petersen, Torben Heien Nielsen, and Tore Olsen, ., "Active vs. Passive Decisions and Crowd-Out in Retirement Savings Accounts: Evidence from Denmark," The Quarterly Journal of Economics 129, no. 3 (2014): 1141-1219.

34 Eric M. Engen, William G. Gale, and John Karl Scholz, "Do Saving Incentives Work?" Brookings Papers on Economic Activity No. 1 (1994), 85–180, https://www.jstor.org/stable/pdf/2534631.pdf; and Orazio P. Attanasio and Thomas DeLeire, "The Effect of Individual Retirement Accounts on Household Consumption and National Saving," *Economic Journal* 112, no. 481 (July 2002): 504–38, https://www.albany.edu/~mj770/530/AD-saving.pdf; Esther Duflo, William Gale, Jeffrey Liebman, Peter Orszag, and Emmanuel Saez, "Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block," *Quarterly Journal of Economics* 121, no. 4 (2006): 1311–46, https://www.jstor.org/stable/pdf/25098828.pdf.

35 Bradley T. Heim and Ithai Z. Lurie, "The Effect of Recent Tax Changes on Tax-Preferred Saving Behavior," *National Tax Journal* 65, no. 2 (2012): 283–312, http://www.ntanet.org/NTJ/65/2/ntj-v65n02p283–311-effect-recent-tax-changes.pdf.

36 Engen, Gale, and Scholz, "Do Saving Incentives Work?"

37 Jonathan McCarthy and Han N. Pham, "The Impact of Individual Retirement Accounts on Savings," *Current Issues in Economics and Finance* 1, no. 6 (September 1995), https://pdfs.semanticscholar.org/79b4/d9adb16a6c0400ded555da863d903806d649.pdf.

38 Richard H. Thaler, "Psychology and Savings Policies," *American Economic Review* 84, no. 2 (May 1994), 186–92, https://www.jstor.org/stable/2117826?seq=1#metadata_info_tab_contents.

39 Brendan Duke, "Universal Savings Account Proposal in New Republican Tax Bill Is Ill-Conceived," Center on Budget and Policy Priorities, September 19, 2018, https://www.cbpp.org/research/federal-tax/universal-savings-account-proposal-in-new-republican-tax-bill-is-ill-conceived.

40 Nicole Kaeding, "Structural Questions Abound with New Mark-to-Market Tax Proposal," National Taxpayers Union, December 18, 2019, https://www.ntu.org/foundation/detail/structural-questions-abound-with-new-mark-to-market-tax-proposal.

41 Ryan Bourne and Chris Edwards, "Tax Reform and Savings: Lessons from Canada and the United Kingdom," *Tax and Budget Bulletin* 77, May 1, 2017, https://www.cato.org/publications/tax-budget-bulletin/tax-reform-savings-lessons-canada-united-kingdom.

United Kingdom Individual Savings Accounts

Individual Savings Accounts (ISAs) in the UK are all-purpose savings accounts for after-tax contributions up to £20,000 (around $26,000) a year and are not subject to income or lifetime contribution limits. Withdrawals can be made for any reason at any time and are always tax-free. Half of ISAs are owned by individuals earning less than £20,000 (around $26,000).[42] Ryan Bourne and Chris Edwards explain that ISAs "are popular with people at all income levels" and that "relative to their incomes, lower earners hold more in their ISAs than higher earners."[43] About 43 percent of UK adults maintain an ISA account and more than half (55 percent) contributed in 2016.[44]

Canadian Tax-Free Savings Accounts

Canada also has a program like USAs called Tax-Free Savings Accounts (TFSAs). Like ISAs, the accounts accept after-tax contributions and allow tax-free withdrawals any time for any reason. Since their creation in 2009, the annual contribution limit has varied and any unused contributions can be rolled over to future years. In 2019 the annual limit was CA$ 6,000 (around US$4,500); an adult who opens an account in 2019, ten years after she could have opened one, can contribute up to CA$63,500 (around US$47,000).[45]

In Canada, 55 percent of account holders earn less than CA$55,000 (around US$41,000), and someone earning between CA$50,000 and CA$55,000 is as likely to contribute to her account as someone earning more than $250,000.[46] Young people take the most advantage of these accounts, with account holders in their twenties contributing at some of the highest rates.[47]

The universal eligibility of USAs makes them a viable product for financial institutions to market widely. In Canada, banks advertise TFSAs and help Canadians meet their saving goals. Privately managed accounts that are widely available to most savers without strict income limits would allow banks all across the United States to compete for new business, driving down management fees and increasing personal savings. Ryan Bourne and Chris Edwards explain that "Canadian news media and financial institutions have extensively marketed the accounts, which has helped promote a culture of saving."[48]

42 HM Revenue & Customs, "Individual Savings Account (ISA) Statistics," April 2019, data for 2016–17, table 9.7, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/797786/Full_ISA_Statistics_Release_April_2019.pdf.
43 Bourne and Edwards, "Tax Reform and Savings."
44 HM Revenue & Customs, "Individual Savings Account (ISA) Statistics," August 2018, data for 2015 to 2016, table 9.8, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/737394/Full_Statistics_Release_August_2018.pdf.
45 Because annual contribution limits can be carried forward to future years, the sum of historical contribution limits (which have varied over time) would allow a $63,500 first-time contribution for someone who turned eighteen before 2009 but did not open an account until 2019. Historical contribution limits: 2009–12, $5,000; 2013–14 and 2016–2018, $5,000; 2015, $10,000; 2016–18, $5,500; 2019, $6,000. Government of Canada, "Tax-Free Savings Account (TFSA), Guide for Individuals," https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/rc4466/tax-free-savings-account-tfsa-guide-individuals.html.
46 Canada Revenue Agency, "Tax-Free Savings Account Statistics (2017 Tax Year): Table 1C; TFSA Holders by Age Group," last modified February 3, 2020, https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/income-statistics-gst-hst-statistics/tax-free-savings-account-statistics/tax-free-savings-account-statistics-2017-tax-year.html.
47 Canada Revenue Agency, "Tax-Free Savings Account Statistics (2017 tax year) Table 1A: TFSA Holders by Total Income Class," https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/income-statistics-gst-hst-statistics/tax-free-savings-account-statistics/tax-free-savings-account-statistics-2017-tax-year.html.
48 Bourne and Edwards, "Tax Reform and Savings."

Conclusion

Instituting a USA would be an important reform that would benefit all Americans by simplifying the savings system and allowing more workers to save for what they prioritize. Gig-economy workers, who are currently the most constrained by the existing system, would enjoy some of the largest gains from a new all-purpose savings account. The current system of special-purpose savings accounts is primarily designed for the traditional employer-employee relationship in which stable employment means workers can focus almost exclusively on retirement savings. Workers with less stable incomes and less money to put away would benefit greatly from less restrictive options for saving.