



Cato's Edwards: US Should Permit Tax-Free Savings Accounts

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Pretty much everyone agrees that Americans must save more for retirement and that the middle class needs some kind of financial assistance.

A recent study by Bankrate shows that 36 percent of American adults don't have any retirement savings.

As for the middle class, average wages increased only 2 percent in the 12 months through July, just matching the rise in consumer prices during that period.

So what's the solution?

"One is a tax program already road-tested in the country whose populace most resembles our own, Canada," Chris Edwards, director of tax policy studies at the Cato Institute, and Amity Shlaes, chairwoman of the Calvin Coolidge Presidential Foundation, write in **The Wall Street Journal**.

"It's called the Tax-Free Savings Account, and TFSA, as most Canadians refer to it, is a roaring success."

In five years of existence, 48 percent of Canadians have set up TFSAs. Meanwhile, though IRAs have been available for almost 40 years, only 38 percent of U.S. households have one.

While Canada's TFSAs are similar to Roth IRAs, there are some differences, they pair notes. "Citizens may deposit up to \$5,500 after-tax each year [in TFSAs], and all account earnings and withdrawals are tax-free. However, unlike Roth IRAs, funds can be withdrawn at any time for any reason with no penalties or taxes," they explain.

"Another feature: The annual limit on a contribution carries over from year to year if a citizen doesn't reach it. So if a Canadian contributes \$2,000 this year, he can put away up to \$9,000 next year (\$3,500 plus \$5,500)."

In addition, "there are no income limits for individuals contributing to a TFSA, and there are no withdrawal requirements at retirement."

When it comes to retirement, **CNBC** offers five ways to enhance your financial situation for those golden years.

1. "Capture savings opportunities."

Take advantage of any extra cash to save for retirement.

2. "Aim to max out your 401(k), IRA and other tax-advantaged accounts."

Workers 50 or older can contribute extra to their 401(k) accounts in an IRAs.

3. "Hang on to your job just a little longer."

The longer you put off retirement, the more wealth you can accumulate.

4. "Strategize Social Security."

The rule of thumb is that the longer you wait to collect on Social Security, the better, because that allows time for your benefits to build up.

5. "Curtail expenses."

The less you spend now, the more you can save.