



# Why banks should prepare for universal savings accounts

## Article

**The news:** Republican Sen. Ted Cruz and Rep. Diana Harshbarger introduced twin bills in the Senate and House that would create a new form of investment-based savings account for consumers.

The tax-advantaged accounts would have fewer limits and rules than other tax-advantaged accounts like IRAs and HSAs.

**Here's how it works:** The Universal Savings Accounts (USAs) would use after-tax contributions and would have no income restrictions. Contributions would be capped at \$10,000 annually for the first year, increasing \$500 a year until the cap hits \$25,000. (After that, the cap is adjusted according to inflation.)

Distributions would not be subject to income tax and would not count toward gross income. Adults can open USAs on behalf of minors, and the accounts are transferred upon the opener's death.

**Why now?** Consumers are stressed about their finances. Markets are choppy, wage growth has fallen for two-plus years, delinquencies have been persistently elevated, and “economic uncertainty” is everywhere.

Moreover, the personal savings rate is currently 40% lower than where it was before the pandemic. USAs could increase savings rates by attracting consumers with better returns—or they could go unused as consumers' income gets eaten up by a feared return of inflation.

**Will it happen?** USA bills have been tried before. They generally garner Republican support and Democratic criticism.

- Supporters say that USAs' flexibility and separation from employer-based tax-advantaged accounts like HSAs offer consumers across the income spectrum better savings options for everything from medical emergencies and retirement to large purchases.
- Detractors say the accounts will hurt federal income and the government's ability to offer services. Opening accounts for minors also raises concerns about generational wealth and exacerbating inequality.

But Republicans control all the levers of power in Washington, giving the bill far better odds of passing between now and the midterm elections than in the past. (Though of course, Cruz will still need to win over at least seven Senate Democrats unless the bill gets shoehorned into reconciliation.)

**Our take:** USAs have a long way to go—and will likely not be the priority as Congress careens toward the deadline to pass a budget. But if momentum builds, banks can use USAs as an opportunity to launch campaigns to attract new customers.

They can also improve their messaging to clients who may not be using their services to the fullest. USAs could be an opportunity to win a larger share of customers' funds from other

sources like fintechs' high-yield savings accounts.