

LEGISLATIVE UPDATE: FINANCIAL TRANSACTION TAX

A Tax On Savings



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Modern Markets Initiative | NCPERS Legislative Conference 2020

ABOUT MODERN MARKETS INITIATIVE

- Founded in 2013, MMI is the leading bipartisan education and advocacy organization that promotes utilizing technology to make markets safer and opposes cyber and IP thieves, market manipulators, front runners, and other bad actors
- MMI's Advisory Board is a community of change-makers who share the common goal of advancing secure savings and investment through innovation
- Members include Hank Kim, NCPERS and Jeannine Markoe Raymond, NASRA



FINANCIAL TRANSACTION TAX:

Overview



“It’s simply wrong to think of the stock market as the exclusive preserve of the wealthy. It’s a reliable engine of investment returns for the middle class...they would suffer if ... the FTT ... became law.”

-Fred Hatfield, former top Democratic Congressional aide and former CFTC Commissioner

DEFINITION: FINANCIAL TRANSACTION TAX

- The financial transaction tax (FTT) is a tax placed on every stock, bond or derivative bought or sold in the U.S.
- Widely-touted as a ‘Tax on Wall Street,’ but would impact every individual or institution that trades stocks, bonds or derivatives

A BRIEF HISTORY OF THE FTT

- The FTT in the United States:

- Repealed in 1965 by President Johnson and Democratic Congress because the tax **failed** to raise projected revenue and caused a **“drag”** on the market

- The FTT in Europe:

- In Italy, the FTT raised **only 15%** of projected revenue
- In France, the FTT raised **less than half** of its projected revenue
- In Sweden, the FTT raised **less than 3%** of its projected revenue

- Why? The FTT reduces trading volume, so that the amount of raised revenue is decreased

LEGISLATIVE UPDATE:

Current State of Play



CURRENT STATE OF PLAY

- Several variations of a financial transaction tax (FTT) proposal pending in Congress
 - Range between 0.5 basis points to 50 basis points on equities, options, bonds.
- Negative impact on the savings community – particularly pension funds, 401k plans and 529 college savings plans
- Would raise the cost of trading and widen the bid-ask spread, leaving investors unable to get the best prices
- Estimates on the cost burden on an annual basis for pension funds range from **\$130 million to over \$500 million** a year

OVERVIEW OF PENDING PROPOSALS

	Sen. Sanders' Proposal	Sen. Harris' Proposal	Wall Street Tax Act	CBO Proposal
Stocks	50 basis points tax	20 basis points tax	10 basis points tax	50 basis points tax
Bonds	10 basis points tax	10 basis points tax	10 basis points tax	10 basis points tax
Derivatives	0.5 basis points tax	0.2 basis points tax	10 basis points tax	10 basis pointed tax
Estimated Revenue	\$2.4T over a decade	\$2T over a decade	"Billions in revenue"	\$777B over a decade

POLITICAL LANDSCAPE

- Top contenders for the Democratic presidential nomination have endorsed the FTT:
 - Sen. Sanders, Sen. Warren, Joe Biden and Mayor Buttigieg have included a Savings Tax/FTT in their platforms
- In the Senate – Only 3 of 100 U.S. Senators have co-sponsored FTT bills:
 - Sen. Bernie Sanders (I-VT)
 - Sen. Kirsten Gillibrand (D-NY)
 - Sen. Schatz (D-HI)
- In the House – Some support from progressive-leaning Democrats not on tax committees

Takeaway: As we approach the 2020 elections, we can expect the temperature to heat up on rhetoric about “punishing Wall Street”... but the FTT is a savings tax that harms Main Street.

THE SAVINGS TAX:

Impact on Average Americans and Pension Funds



THE FTT IS A SAVINGS TAX

 Data shows that a majority of Americans prioritize saving for a **SECURE RETIREMENT** and **PAYING FOR COLLEGE**:

More than half of Americans age 22 to 74 think about retirement at least

FOUR TIMES PER WEEK.*

More than half - about **52%** - of Americans are invested in the stock market.**



More than **44%** of Americans have **529 COLLEGE SAVINGS PLANS.*****

 About **57%** of Americans say that saving for retirement is their **TOP FINANCIAL PRIORITY.******

Who will the FTT impact?

- **All Americans**, regardless of income level, who invest in the markets – be it directly or through their retirement accounts, such as pension plans, 401(k) plans, IRAs, 457 plans and 529 plans
- It's estimated that appx. 160 million Americans invest in the stock market directly or through a fund
- The FTT is a **savings tax** that penalizes the hard-earned nest eggs of those saving for retirement
- A drag on pension fund returns would require increased employer/taxpayer contributions



VANGUARD: FTT DELAYS RETIREMENT



According to Vanguard, **the savings tax or FTT would delay retirement by TWO YEARS** for the average American to reach the same retirement goals (assuming a 10 basis point tax)

IMPACT OF THE FTT ON PENSIONS

State employee fund	~ \$300B AUM	– Cost: \$719.8 million
State/muni employee fund	~ \$25B AUM	– Cost: \$206.3 million
Police and Firefighter fund	~ \$180B AUM	– Cost: \$310.7 million
City employee fund	~ \$150B AUM	– Cost: \$1.3 billion
State teachers fund	~ \$125B AUM	– Cost: \$307.8 million

ADDITIONAL FINDINGS

MMI's Fall 2019 report found that the savings tax or FTT would cause significant financial implications for average American savers, including:

- **\$19 million** in annual FTT on 529 College Savings plans, or the equivalent of a year of **full in-state tuition for 1,900 students** at a public university;
- **\$24 million** in annual FTT for a single public university endowment with \$20 billion AUM, or the equivalent of **3,227 college scholarships** in a given year;
- **\$64,232** in annual FTT over the lifetime of a 401k account, or the equivalent of **delaying the average individual's retirement by two years**.
- Additionally, the FTT would widen spreads, which are the difference between the bid and ask price.
- Therefore, it is estimated that an average city fireman's pension fund would owe about \$429,000 in annual FTT a year, with widened spreads of about \$423,000 a year, for a **total economic impact of \$850,000** a year.

THE SAVINGS TAX:

What Should Congress Be
Doing Instead?



ENCOURAGE INVESTMENT SO PENSION FUND PARTICIPANTS CAN ADEQUATELY SAVE FOR RETIREMENT

- We need policies that help, rather than harm, the savings goals of Americans – and that help, rather than harm, pension funds and defined benefit participants.
 - Pension Funds **contribute to capital markets**.
 - Pension Funds are efficient vehicles for **advancing secure retirement** for many Americans.
- **Technology** is a valuable asset for pension funds to prosper - reduced trading costs, increased efficiencies.
 - Some proponents of the FTT have emphasized the goal of “curbing” automated trading, which has actually been **good for investors**
 - Automated trading has **brought down cost of trading by more than 50%** over a decade
 - Investors have **30% more in lifetime savings** as a result of those reduced trading costs
 - Pension funds **benefit** from the existence of efficient, inexpensive capital markets with automated trading playing a valuable role in liquidity.
 - The FTT proposals aimed at curbing so-called automated trading would **harm the entire financial ecosystem**.
 - To learn more about the positive cost savings of automation of the markets, please visit modernmarketsinitiative.org.

KEY TAKEAWAYS

“It’s simply wrong to think of the stock market as the exclusive preserve of the wealthy. It’s a reliable engine of investment returns for the middle class...they would suffer if ... the FTT ... became law.”

-Fred Hatfield, former top Democratic Congressional aide and former CFTC Commissioner

- There will be a demand to raise revenue in the next Congress, and it is possible that discussions of a Savings Tax – or FTT – will resurface in the coming year.
- Become educated on the real-world impact of such proposals on all savers – including pension funds and defined benefit plans – before giving your support to an idea that could have negative consequences.
- MMI is happy to be a resource. For more information, please visit: NoSavingsTax.org or NoRetirementTax.org

THANK YOU

Learn more by visiting
NoSavingsTax.org

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