Draft Legislation – Social Security Individual Retirement Account

Problem

1. The solvency and sustainability of Social Security increasingly looms as a critical problem. As Americans continue to live longer lives, as labor and income patterns fluctuate, and as population dynamics continue to shift, comprehensive reform of Social Security will be a necessary action. In sum, Social Security in its current form cannot remain a solvent, sustainable and reliable program without certain adjustments that account for wider demographic and economic realities.

2. The majority of retired workers rely on Social Security as the largest portion of their retirement income. For many Americans, Social Security is their only source of income. The average amount of Social Security paid out is just over $13,000 per year. Put simply, workers need more money for their retirement.

3. Several proposals to reform Social Security contain a provision to set back the age of eligibility. Numerous polls conducted by the Association of Mature American Citizens (AMAC) have shown that while these are generally the most acceptable method to help restore solvency, they could result in some unfavorable consequences. The primary disadvantage of changing the eligibility age is that older workers would be forced to continue working, especially hurting workers who must perform physical labor to earn their paycheck.

Solution

In addition to many of the solutions being discussed to fix Social Security, the creation of a Social Security Individual Retirement Account (SS-IRA) has significant merit. As initially conceptualized, a Social Security-IRA would be an entirely voluntary option available to all workers eligible for Social Security. It would provide much needed supplemental income and allow workers to be able to retire at any age between 62 and 66. It would also provide an additional tax deductible option to encourage Americans to save more for their retirement.

Critical to note is that the Social Security IRA is not intended to – nor will it – replace or privatize our basic Social Security system. Being an entirely voluntary option, the Social Security IRA would allow retirees greater flexibility, financial opportunity and personal financial discretion without subjecting Social Security to greater market risk. Further, and perhaps most importantly, the Social Security IRA is intended to compliment any larger Social Security reform that would involve setting the eligibility mark back to a higher age.
Specifically, the Social Security IRA would:

- Be available for any wage earner who is not receiving Social Security benefits and is 65 or younger. The earliest entitlement age would be the first day of the month following the month the wage earner reaches age 62. The wage earner has the option of waiting until age 66 to begin to receive payments, but payments must begin at age 66;

- Be paid via payroll deduction, with the administration being done by private companies without cost to the taxpayers. Employers must make available a payroll slot for a Social Security IRA.

- Have minimum weekly contributions of $5 with a maximum annual amount of $5,200, and indexed for inflation every 5 years;

- Contain a voluntary employer match provision with a tax deduction for matching employee contributions. Employers may choose to set their own limits on how much they would care to match (i.e. the first $1,400 or $25 per week, etc);

- Make the individual the owner of the IRA – the IRA would also be portable, meaning if the owner leaves one employer and goes to another, the new employer must continue deductions to the IRA;

- Have the following payout options for the wage earner: Life with 10 year certain; Life with spousal survival benefit; or a 5-year, 10 year or 20 year period certain;

- Maintain the death benefit to be the amount of accrued value in the IRA at the time of death;

- Make the disability benefit available only if the wage earner is totally and permanently disabled as certified by Social Security. Payments are based on the life expectancy of the individual at the time of disability;

- Allow the wage earner to choose investment options from any investment typically offered for IRAs and 401k type programs. A minimum of 50% of investment must be in fixed or guaranteed interest accounts. Administration of the plans would be done by the vendor, not the government.

**Justification**

The value of creating, and ultimately participating in, a Social Security IRA, is illustrated by the potential earnings. In fact, even under the most careful and conservative scenarios – with only the most
modest of contributions – participants in a Social Security IRA would accrue a significant amount of savings over time.¹

   Based on projections with the average returns, a 25 year old worker putting in only $15/week, with a small contribution of $50/month from the employer would have $165,407 at 62.

   Alternatively, if the worker contributed $45/week with the same employer contribution of $50/month it is projected that the worker would have accumulated $352,389 by age 62.

   These numbers clearly show that the Social Security IRA would allow a worker to retire at age 62, and/or would provide a substantial amount of additional money for retirement at a later age. Together with legislation already proposed, the Social Security IRA would help to allow Social Security to remain solvent while providing much needed retirement funds for older Americans.

   **Recommendation**

   Millions of American citizens are facing a financial dilemma upon reaching retirement age. A practical non-partisan solution is at hand, therefore we recommend:

   Title 42 USC, Section 402, should be amended to include a Social Security IRA. Specifically, a Social Security IRA should accompany any future Social Security reform legislation that would raise the age of eligibility for benefit qualification and withdrawal.

   ¹ *Please see Appendix A for a complete breakdown of financial projections based on potential scenarios.*
Appendix A

With the inclusion of a Social Security IRA with any reforms to Social Security that would alter the age of eligibility withdrawal, we realistically estimate that:

Based on projections with the average returns, a 25 year old worker putting in only $15/week, with a small contribution of $50/month from the employer would have $165,407 at 62.

Alternatively, if the worker contributed $45/week with the same employer contribution of $50/month it is projected that the worker would have accumulated $352,389 by age 62.

To illustrate the potential true value of the Social Security IRA, we have generated two different sets of proposals detailing the expected returns. Very modest contributions are shown in an attempt to be as realistic as possible. These projections are calculated for a 25 year old worker showing the value accumulated at age 62. The first set of proposals is based on contributing $15 per week ($65 per month). The second set of proposals is based on contributing $45 per week ($195 per month).

There are four scenarios for each set of proposals:

1. 50% of funds in Guaranteed Account (required) - average return of 3%
   50% of funds invested in Stock/Bond market that suffers severe losses with average return of 1%
   No Employer match

2. 50% of funds in Guaranteed Account – average return of 3%
   50% of funds invested in Stock/Bond market with moderate gain, average return of 4%
   Employer contribution of 50$ per month, $600/year (Approximately $11.50/week)

3. 50% of funds in Guaranteed Account – average return of 3%
   50% of funds invested in Stock/Bond market with higher gain, average return of 7%
   Employer contribution of $50 per month, $600/year

4. 50% of funds in Guaranteed Account- average return of 3%
   50% of funds invested in Stock/Bond market, average return of 7%
   Employer contribution of $100 per month, $1,200/year

Accumulated Savings using Conservative projections

$15 per week contribution

1. Guaranteed account, ½ {($7.50x 52 weeks=$390/year) at 3% for 37 years= $26,582
   Stock/Bond account, ½ “ “ “ “ “ at 1% “ = $17,532
   With poor performance of investment account Total $44,114

(Note: the Stock /Bond market has never performed as low as 1% over the long term)
2. Guaranteed Account $390/year + $300* = $690/year at 3% for 37 years = $47,030
   Stock/Bond account " " " " at 4% " " = $58,629
   With below average investment account returns Total $105,659
   *assuming ½ of voluntary employer contribution of $600/year (tax deductible)

3. Guaranteed account $390/year + $300= $690/year at 3% for 37 years = $47,030
   Stock/Bond account " " " 7% " " = $118,377
   With average investment account returns Total $165,407

4. Guaranteed account $390/year + $600* = $990/year at 3% for 37 years = $67,477
   Stock/Bond account " " " 7% for 37 years = $169,845
   With average investment account returns Total $237,322
   *assuming ½ of employer contribution of $100/month, $1,200/year

45 per week contribution (Same formulas as above with higher contribution)

3. Guaranteed at 3%, Stock/Bond at 1%, 50/50 split, $1,170/ year each acct.
   With poor performance of investment account Total = $132,341

2. Guaranteed at 3%, Stock/Bond at 4%, 50/50 split, $1,470/ year each acct.
   With below average performance of investment account Total = $225,100

3. Guaranteed at 3%, Stock/Bond at 7%, 50/50 split, $1,470/ year each acct.
   With average performance of investment account Total = $352,389

4. Guaranteed at 3%, Stock/Bond at 7%, 50/50 split, $1770/ year each acct.
   With average performance of investment account Total = $424,305

Finally, to allow for inflation we recommend the Social Security IRA annual be automatically increased each year by 2.8%. The annual payments would change as follows:

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