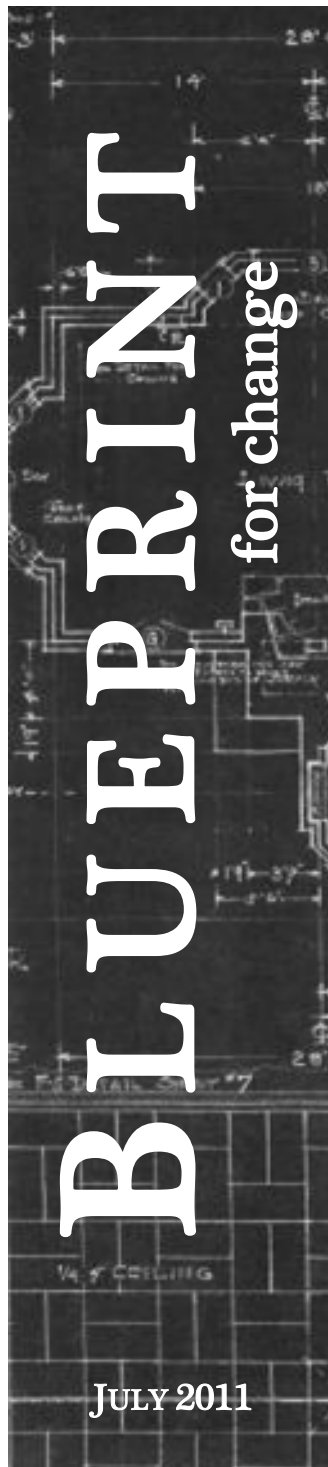


Rebuilding the Foundation

THREE STEPS TOWARD A SECURE, DIGNIFIED RETIREMENT FOR ALL



BY JOHN BURBANK & GARY BURRIS

Executive Summary

A secure and dignified retirement is one of the hallmarks of America's middle class. But its foundation – a combination of Social Security, pensions, and savings – is no longer secure. While Social Security is on solid financial footing for decades to come, private pensions have largely disappeared from the economic landscape, and decades of stagnant wages and debt have depleted savings and retirement accounts. Today, few Americans can afford to save for retirement on their own.

This brief proposes three steps to ensure retirement security for every American:

1. Augment and strengthen Social Security;
2. Advance universally accessible voluntary retirement accounts;
3. Develop state supplemental social insurance programs.

They are based on the following principles:

- **Universal coverage:** All workers, their dependents and survivors are covered by enhanced Social Security benefits and state supplemental social insurance, ensuring steady and sufficient income for retirees, beneficiaries and their family members.
- **Shared responsibility:** Required contributions from both employees and employers ensure revenue responsibility across the socio-economic spectrum.
- **Individual choice:** Universally accessible voluntary retirement accounts enable and encourage additional voluntary contributions by individuals and their employer(s).
- **Portability:** Enhanced Social Security, state supplemental social insurance, and universally accessible voluntary retirement accounts are completely portable from job to job.
- **Modernized benefits:** Enhanced Social Security and state supplemental social insurance increase retirement security and provide income protection for temporary disability and family leave. Universally accessible voluntary retirement accounts are transferable and payable to survivors upon the death of the primary beneficiary.

REBUILDING THE FOUNDATION: KEY COMPONENTS

The key components for rebuilding the foundation of retirement security include:

1. **Enhanced Social Security:** Social Security benefits should increase for lifetime low- and middle-wage earners, elderly widows/widowers, and those who care for family members without compensation.
2. **Retirement Income Security (RISE) Accounts:** By utilizing existing government (state and/or federal) infrastructure, private sector workers and business owners can have universal access to portable voluntary retirement accounts.
3. **State supplemental social insurance:** Offers progressive benefits based on a modest payroll premium that also funds family leave insurance and temporary disability programs.

Two hallmarks of this proposal:

- **Efficient and effective administration and oversight:** Enhanced Social Security benefits will be administered by the Social Security Administration. Universal voluntary retirement accounts will be administered through state public retirement systems and investment boards.

State supplemental social insurance will be managed both by the state investment board and a state department such as the Washington State Department of Employment Security or Labor and Industries.

- **Pooled assets leveraged for stability and growth.** New and enhanced contributions to Social Security, pooled together, can be used to purchase state and local bonds for construction. The benefit is two-fold:

1. The bonds establish a firewall between the federal budget and contributions, and
2. They stimulate economic activity in the states.

Contributions to the state supplemental social insurance systems would be pooled together and managed by the state, with surpluses targeted for bonding to finance new construction and manufacturing.

Contributions to universal voluntary retirement accounts are pooled and professionally managed in order to minimize individual cost and risk.

3

STEPS

TO RESTORE A
SECURE AND
DIGNIFIED
RETIREMENT

LARGE ECONOMIES OF SCALE

MINIMIZE
INDIVIDUAL COST
AND RISK

ENHANCED SOCIAL SECURITY

Social Security today

Social Security is the bedrock of economic security for millions of retired and working Americans, as well as children and parents. Today, more than nine out of ten elderly people live above the poverty line, thanks to lifetime retirement benefits, annual cost of living increases, and family benefits. Without Social Security, almost half of the elderly would be poor.¹

On average, Social Security accounts for more than 80% of income for almost half of American seniors.² In 2010, Social Security provided \$703 billion in benefits to 53 million people, including:

- 36.9 million retired workers and their dependents;
- 9.9 million disabled workers and their dependents;
- 6.4 million survivors of deceased workers;
- 3.2 million children.³

While Social Security benefits are progressive, replacing 56% of earnings for a low wage worker, 41% for median wage earners, and 28% for high wage workers, they should not be overstated.⁴

In 2008, the median income of individuals aged 65 and older was \$18,208. One-fourth of Americans 65 and older had incomes of less than \$11,139,⁵ hovering on the margins of official poverty. This economic insecurity can be rectified by enhancing Social Security benefits, funded by modest increases from existing sources of revenue.

Steps to enhance Social Security

This approach to enhancing Social Security focuses on increases in benefits that preserve the concept of Social Security as universal social insurance.

Increase the benefit formula: New minimum benefits and increased benefits for all Social Security recipients will provide a robust and progressive adjustment to Social Security. In 2010, Social Security benefits provided beneficiaries 90% income replacement on the first \$761 of average monthly earnings. Between \$761 and \$4,586, beneficiaries received 32% of earnings. These benefit formulas should be increased to 100% and 40%, respectively, to help keep elderly Americans out of poverty. This proposal would cost about 2.8% of payroll.^{6,7}

80%

OF INCOME IS
PROVIDED BY
SOCIAL SECURITY
FOR ALMOST HALF
OF AMERICAN
SENIORS

1 IN 4

AMERICAN
SENIORS HAD
INCOMES WITHIN
150% OF FEDERAL
POVERTY IN 2008

30% - 50%

AMOUNT OF
BENEFIT LOST BY
ELDERLY
WIDOW(ER) AFTER
DEATH OF SPOUSE

Increase elderly survivors' benefits. An elderly widow or widower loses one-third to one-half of the Social Security benefit he or she received before the death of their spouse. Raising the benefit for a surviving spouse to 75% of the couple's pre-death benefit would help low and moderate-income widows and widowers. This change would also eliminate the "working women's penalty", by which a dependent non-working widowed spouse could receive a higher Social Security benefit than a widowed spouse with a lengthy work history.⁸ This reform would cost about .46% of payroll.⁹

Base Social Security benefits on the worker's 30 highest-earning years. Social Security benefits are based on the adjusted average of a worker's 35 highest-earning years. This formula tends to penalize women who, on average, spend far more time providing unpaid family care – averaging only 32 years of paid work, compared to the male average of 44 years. Any years under the 35-year threshold are counted as zeros in the Social Security formula, lowering the typical woman's benefit and penalizing workers who experience high rates of unemployment.

One solution is to base benefits on the adjusted average of a worker's 30 highest-earning years. This reform would acknowledge time spent in family care-giving (disproportionately women) and time spent unemployed (disproportionately low-wage males). This solution makes little difference to a high earner near the maximum taxable threshold, while having a noticeably positive effect on low earners. This proposal would cost about 1.2% of payroll.¹⁰

Paying for Social Security enhancements

Eliminate the cap on taxable income. The benefit increases noted above will require additional revenue, which can be achieved by eliminating the cap on taxable income. Over the past three decades, a smaller percentage of wages have been subject to Social Security taxes, thanks to disproportionately large gains in compensation for the highest income professionals and executives.¹¹ Despite a taxable earnings ceiling of \$106,800 from 2009-2011, just 83% of wages were subject to Social Security taxes in 2009 - down from 91% in 1983.¹²

\$106,800

TAXABLE
EARNINGS CEILING
FOR SOCIAL
SECURITY WAGES,
IN 2011

Eliminating the cap on earnings taxable for Social Security benefits would create a more progressive tax system and generate new revenue for Social Security – an additional 2.21% of payroll.¹³ Under this approach, Social Security funding would mirror that of Medicare: all workers and their employers pay the same proportionate tax, and all retirees 65 and older receive the same package of benefits. It also maintains the concept of shared social insurance. Not only would the highest earners be contributing more proportionately to Social Security, so would their employers.

Dedicate a tax on unearned income to Social Security. The federal tax rate on unearned income has fallen from 70% on interest and dividends in 1980 to 15% on long term capital gains in 2010.¹⁴ One result: earned income is taxed at a higher rate than unearned income, creating work disincentives at higher income levels. During the same period, Social Security taxes have increased to partially cover the loss of revenues from unearned income, as well as backfill decreased taxation of earned income, especially for high salaried employees.

70%

TAX ON INTEREST,
DIVIDENDS AND
CAPITAL GAINS IN
1980

A 10% surtax on unearned income, including interest and dividend income and realized capital gains (excluding pensions and retirement accounts) would generate new revenue equivalent to 3.0% of payroll.¹⁵ The tax on unearned income would be equal to the marginal tax rate on earned income paid by the typical family, and still be well below historical levels of taxation on unearned income (28% in the early 1990's, 70% on interest and dividends in 1980).

Undertake a new investment approach. The current practice of purchasing Treasury bonds creates a number of political and fiscal problems. It hides the actual federal deficit and creates the false impression that Social Security Trust Funds don't exist. It also allows the continued transfer of tax responsibility from the wealthy (through the thirty-year trend in diminishing income taxes) to workers (through increased FICA taxes). Finally, it exacerbates the federal debt, through the eventual necessity of re-paying the Social Security Trust Fund in order to fund Social Security benefits.

New revenue generated by the proposals outlined above should first be used to pay for enhancements to Social Security, with additional income invested in the purchase of highly-rated state and local bonds. This approach is not only safe and secure; it will also improve the nation's infrastructure without increasing the obligations of the federal government. New funding for state and local bonds will increase and sustain transportation, energy, and manufacturing projects that will help rebuild the nation's infrastructure and revitalize our economy.

15%

TAX ON INTEREST,
DIVIDENDS AND
CAPITAL GAINS IN
2011

After several decades, if the Trust Fund is invested more in state and local bonds rather than Treasury Securities, long term federal indebtedness to the Social Security Trust Fund will start to decrease.

CALCULATIONS OF FINANCIAL IMPLICATIONS FOR PROPOSED ACTIONS¹⁶

Proposals to expand Social Security benefits	Cost as a % of payroll
Increase the benefit formula	2.80%
Increase elderly survivors' benefits	0.46%
Determine Social Security benefits on 30 highest-earning years	1.20%
Total Increase in benefits	4.46%
Proposals for new revenues	Cost as a % of payroll
Eliminate the cap on taxable income	2.21%
Add a tax on unearned income, dedicated to Social Security	3.0%
Total increase in revenues	5.21%
New revenue/benefit adjustment proposal	Cost as a % of payroll
Net revenue impact	1.75%

PROBLEMS WITH TODAY'S RETIREMENT OPTIONS

401(k)

A RETIREMENT
OPTION WITH
COMPLEX
PROVISIONS THAT
IS DIFFICULT FOR
SMALL BUSINESSES
TO IMPLEMENT

Even with increased Social Security benefits, without dramatic buttressing of the private-sector pension and retirement savings system, most workers will not be able to save for a secure retirement. States can lead this effort by building on existing public structures, developing programs to increase businesses participation in retirement plans that allow all workers to save for retirement.

There are numerous routes available for both employers and employees to set up retirement accounts – but the complex and cumbersome plans dominating today's market do not fit the needs of most small- and medium-sized businesses, or their workers. Designed primarily for large businesses, existing plans require time and resources that small business owners and managers usually cannot commit.

The 401(k)

Named for the tax code provision that enables these plans, the 401(k) is the preferred retirement option for large companies. It allows employees to contribute a portion of their salaries to a retirement account before paying income taxes. It enables employers to make non-mandatory contributions, match employees' contributions, or both. This type of plan has many complex provisions and requires fiduciary decisions by the plan sponsor (the employer). The cost per employee is much higher for small businesses than large corporations, due to fixed costs and a smaller pool of participants.

IRAs and SEPs

Recognizing the difficulty smaller employers have in establishing retirement plans, Congress developed alternatives for small business, including Individual Retirement Accounts (IRAs), Simplified Employee Pensions (SEP) and SIMPLE IRAs, to make it easier for small employers to start a plan at their place of employment. Once established by the employer, employees can contribute to an individual account.

In a SIMPLE IRA, for example, employers can choose to either match dollar-for-dollar (up to 3% of an employee's compensation) or provide a contribution regardless of employee participation (equivalent to 2% of total compensation for each employee). Despite the fact that these types of plans are open to businesses with fewer than 100 employees and have streamlined reporting requirements, very few businesses take advantage of these options. Only 8% of workers in private sector firms with less than 100 employees participated in a SIMPLE IRA and only 2% in a SEP IRA in 2005.¹⁷

8%

PARTICIPATION BY
PRIVATE SECTOR
WORKERS IN A
SIMPLE IRA
(SMALL TO MEDIUM
SIZE FIRMS)

Existing plans fall short – and so do Americans’ retirement savings

The “defined contribution” options outlined above have not extended coverage to a greater share of the workforce. Instead they shifted (at least partial) funding and complete responsibility for investment decisions and outcomes to employees. Further, they replaced the more efficient “defined benefit” pensions, in which corporations retained funding and benefit responsibilities.¹⁸

Not surprisingly, the number one reason workers do not participate in a pension or retirement plan is their employer does not offer one. The percentage of private sector employees working for employers that offer any kind of pension or retirement plan has stagnated between 50% and 60%, ranging from 50.7% in 1987 to a high-water mark of 59% in 2000. By 2007 the rate was down to 52.7%. Employee participation rates were 39.8% in 1987 and only 41.5% in 2007.¹⁹

Some workers are particularly unlikely to have pension or retirement plan coverage. These include:

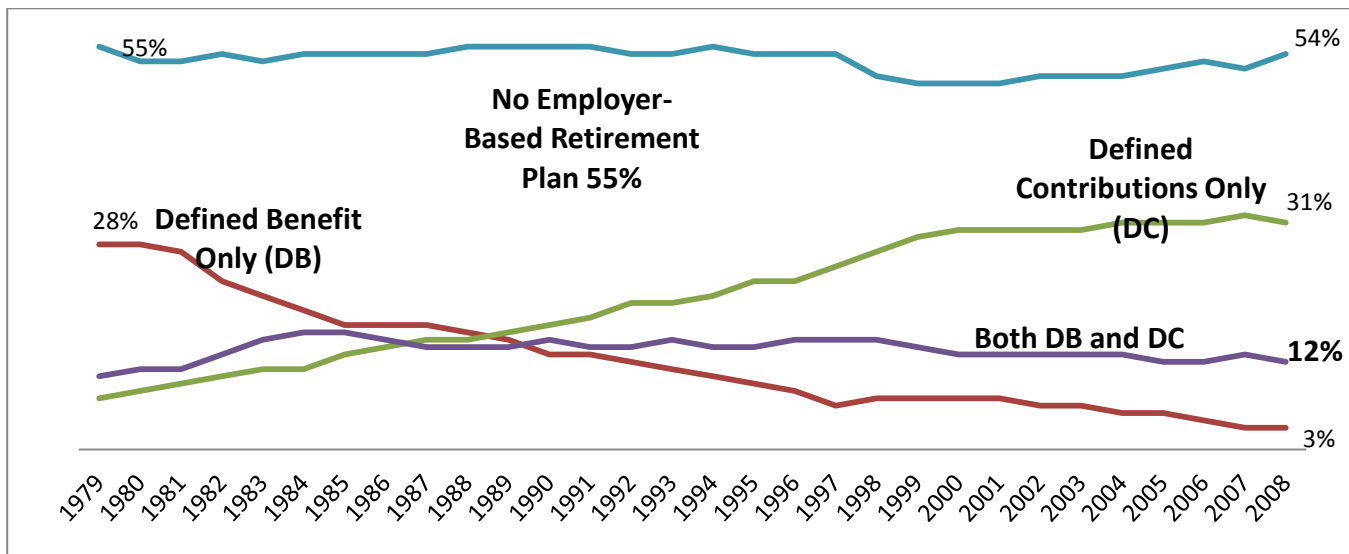
- **Low-income workers:** 83% of workers with annual incomes of less than \$20,000 lack a pension or retirement plan.
- **Part-time and temporary workers:** 75% of workers who work part-time or seasonally do not have a pension or retirement plan.
- **Small business employees:** 80% of workers employed by businesses with fewer than 25 employees do not have a pension or retirement plan.²⁰

As a result, the majority of American workers are not regularly saving for retirement. While some workers may have one or more accounts in their name, most balances are quite small, and most workers do not make regular contributions.²¹

41.5%

OF ALL PRIVATE
SECTOR EMPLOYEES
WORKED FOR FIRMS
OFFERING A
PENSION OR
RETIREMENT PLAN
IN 2007

PRIVATE-SECTOR WORKERS PARTICIPATING IN AN EMPLOYMENT-BASED RETIREMENT PLAN



Source: EBRI, *FAQs About Benefits—Retirement Issues*, Figure 1:
www.ebri.org/publications/benfaq/index.cfm?fa=retfaq14fig1

Why more Americans don't set up retirement plans

There are two main reasons why more business owners and their employees are not setting up and contributing to retirement accounts. The first is the complexity of retirement investment options. The second is the high costs and hidden fees for start-up, administration and participation.

80%

OF PRIVATE SECTOR
EMPLOYEES IN
SMALL FIRMS DO
NOT HAVE A
PENSION OR
RETIREMENT PLAN

The complexity of retirement investment options: One of the most difficult decisions for small- or medium-sized business owners is choosing a company to administer a retirement plan. There are many different investment companies, banks and insurance companies offering retirement products.

According to the Employee Benefit Research Institute, researching which plan to offer and selecting a company to administer it requires a great deal of time and resources.²² Small employers working long hours trying to make their companies successful are quickly overwhelmed by imperfect and sometimes misleading information, the multiplicity of choices, and initial set-up costs and responsibilities.

Workers face similarly difficult decisions about where to invest contributions toward their retirement savings. When employers offer retirement plans, individual workers often overinvest in specific funds and infrequently rebalance their portfolio. Research on the frequency of these two fundamental errors suggests individual investors struggle to make sound investment decisions.

In theory, workers without employer-provided plans could invest in Individual Retirement Accounts (IRAs), U.S. Treasury bonds, or insurance products such as whole life insurance or annuities. In reality, the complexity of these choices makes it difficult for most people - who lack a strong understanding of saving and investing alternatives - to determine which options best fit their needs.

Overwhelmed with the number of choices and the complexity of financial markets and investment vehicles, and perhaps justifiably skeptical of the financial services industry given recent events, a majority of Americans are not setting aside money for retirement.

401(K)S

ARE TYPICALLY
COST PROHIBITIVE
FOR BUSINESSES
WITH FEWER THAN
100 EMPLOYEES

High costs and fees for start-up, administration and participation: For businesses with fewer than 100 employees, a 401(k) is typically too expensive to operate. Businesses are also concerned by the costs associated with starting a plan, including the time required to research which plan to offer and selecting a company to administer it.²³ There are other costs as well – for example, some employers want to avoid mandatory contributions to workers' retirement accounts, a requirement for certain types of plans.

Fees are also a major concern. Many fees are hidden – difficult for even experts to identify – so much so that the U.S. Congress held a hearing on that very problem in 2007.²⁴ The high fees typically charged to manage transactions and maintenance for small accounts can eat up most or all earnings – or even cut into the principal invested.

OVERCOMING BARRIERS TO RETIREMENT SAVINGS

Retirement Income Security (RISE) Accounts provide a simple, easy solution to the retirement savings dilemma facing today's workers and businesses. RISE accounts will utilize the framework of existing systems for successful federal and state employees' deferred compensation plans. They will establish similar simple and convenient options for all private sector employees and small businesses who wish to participate in a retirement savings program.

While such systems would be separate from those for public employees, they could operate in parallel, using similar criteria and management mechanisms. The accounts could be created through a new system within government, or by contracting out to the private sector.

RISE accounts will enable small business owners, currently without the resources to participate in a retirement plan, new options that are researched, vetted, and contracted by the federal or state government. RISE accounts will provide voluntary retirement plans for all workers – with the economies of scale that large corporations currently enjoy.

The program could be administered by either the federal government or initiated and operated by the states:

- The federal government has decades of experience running a public retirement system, and the mechanisms to invest billions of public sector funds. The Thrift Savings Plan is a defined contribution plan administered by the Federal Retirement Thrift Investment Board that could be expanded or used as a model for a new private sector option.
- States also have decades of experience running public retirement systems, and the mechanisms to invest billions of public sector pension dollars. They run deferred compensation plans for state workers that could be replicated for the private sector.

RISE Accounts minimize costs via economies of scale by offering a few basic, easy-to-understand investment options for all workers. A simple start-up process, automatic enrollment, default contributions and payroll deduction are other hallmarks of this proposal. The simplicity of the program will reduce plan changes and transaction costs.

Like other defined contribution plans, RISE Accounts would offer a pre-selected menu of investment options and tax-deferred payroll deductions. Unlike current plans, RISE Accounts would offer retirement account portability between jobs. A two-tier RISE Account program might include:

1. Workplace-based individual retirement accounts open to all workers; and
2. A deferred compensation SIMPLE IRA or other IRS-approved small business plan open to all employers who choose to participate for their employees.

RISE

ACCOUNTS

WOULD ALLOW
ALL WORKERS TO
START SAVING FOR
RETIREMENT AT
THEIR WORKPLACE

YEARS OF EXPERIENCE

BY STATES AND
THE FEDERAL
GOVERNMENT
RUNNING
RETIREMENT
SYSTEMS

Design considerations for RISE Accounts

There are several key features which could be offered by the RISE program, depending on the level of administration (federal or state). Possible features include: automatic enrollment, default investments, payroll deduction, pre-tax contributions, and low fees. As a state-based program, RISE Accounts would be portable between different places of employment within the state.

Simple choices and default investments: Plan design is the key to providing easy-to-understand options for workers, as people can be easily overwhelmed with the complexity of investment options.²⁵ In short, too much choice lowers workers' enrollment in plans.²⁶ RISE accounts should provide a few basic options from which to choose, in conjunction with basic financial education, in order to help workers initiate and allocate their retirement contributions.

Each worker should be presented with a default investment – that is, a preselected contribution portfolio in the event the worker makes no choice. The worker would have the option to modify that selection at anytime.

Such a default could be set up in several ways. A more conservative approach would preselect a fund designed to keep up with inflation and perhaps return a small amount. These are sometimes referred to as “principal preservation accounts.” Contributions are invested in high-rated bonds, money market accounts and other stable investments.

A different approach might be “life cycle” funds, in which workers choose a fund based on their target retirement date. For example, a worker who is 38 years old in 2008 and plans to retire at age 70 (in 2040) would choose a life cycle fund for that target year. It would utilize a mix of investments that varies over time. In the near term the fund selects riskier investments that offer the opportunity for larger returns. As the worker ages, the fund automatically changes the investment mix to preserve capital and eventually generate regular income after retirement.

Automatic enrollment: The most important benefit of automatic enrollment is it starts the retirement investment process for workers. When people begin contributing money to their retirement accounts, they tend to continue. If RISE accounts allow or encourage automatic enrollment, participation and savings rates will increase significantly.²⁷

Officials in some private companies began using automatic enrollment in 1984 as a way to increase participation,²⁸ and it has dramatically increased the number of employees that participate in their companies' retirement plans.²⁹ The Pension Protection Act provides additional support for employers to get employees started with saving and investing for retirement. Since its passage in 2006, the use of automatic enrollment has increased dramatically.

Vanguard reports that in August of 2008, more than 300 of the plans they administered in 2007 had automatic enrollment. This is triple the number from 2005.³⁰ Vanguard also reported that with automatic enrollment, 86% of new hires begin retirement savings, compared to 45% of those who must choose to enroll.³¹

AUTOMATIC ENROLLMENT

ENCOURAGES
WORKERS TO
BEGIN INVESTING
IN THEIR
RETIREMENT

86%

OF NEW HIRES
BEGAN
RETIREMENT
SAVINGS WITH
AUTOMATIC
ENROLLMENT

10

AVERAGE NUMBER
OF JOBS TODAY'S
WORKER IS
EXPECTED TO
HAVE DURING
THEIR LIFETIME

\$230,000

SAVED BY AGE 67
BY A 25 YEAR OLD
MALE WORKER
PUTTING \$15 PER
WEEK INTO A
RETIREMENT PLAN

Payroll deduction: Deducting funds electronically from a worker's paycheck provides several benefits. Workers are less likely to feel a loss of income when the money does not come into their personal accounts and then back out, and are more likely to participate. Generally, employers have electronic systems in place to directly deposit paychecks and pay taxes. Adding an electronic deposit to a retirement account can happen at minimal cost to the employer. It also reduces costs to the retirement fund administrator by relying on an electronic deposit, rather than a labor-intensive paper process.

Pre-tax contributions: RISE Accounts enable workers to put their earnings into retirement savings prior to taxation, lowering their current taxes. Setting money aside for retirement before paying taxes on it has major benefits over time. The money that would have been paid in taxes is instead earning returns in investments. In retirement, most people's incomes are lower, so when withdrawals are made, they are taxed at a lower level than they would otherwise have been.

Portability: Today's worker is expected to hold an average of more than 10 jobs during their lifetime.³² A mobile workforce needs to be able to continue to invest in retirement savings from job to job. RISE accounts are designed to follow the worker when he/she changes jobs.

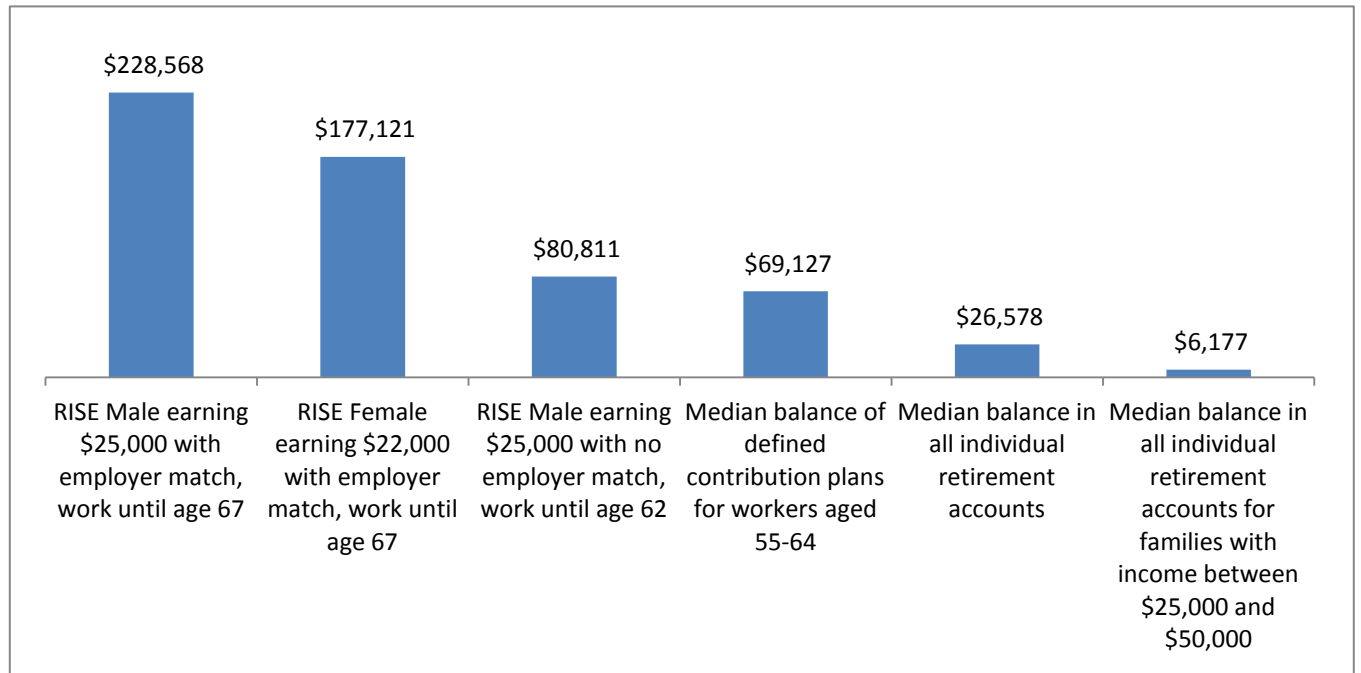
Low account fees: The fees that are charged on defined contribution plans are of profound concern. Congressional committees have recently held hearings on hidden fees in 401(k)s. These fees may average as much as two to three percent, or even more in some cases. RISE account administrators will be able to use the economies of scale realized from pooling to negotiate and/or mandate low fees.

Fixed annuities: Upon retirement, workers would be required to convert retirement savings accounts into fixed annuities. Workers would have the option to name just themselves or include their spouse in the fixed annuity and would also be given the option of a death benefit provision. The purpose of the death benefit provision is to allow a retiree to pass along some of their retirement savings to designated beneficiaries, often their children, in the event the retiree does not live a long life.

How RISE Account benefits will add up

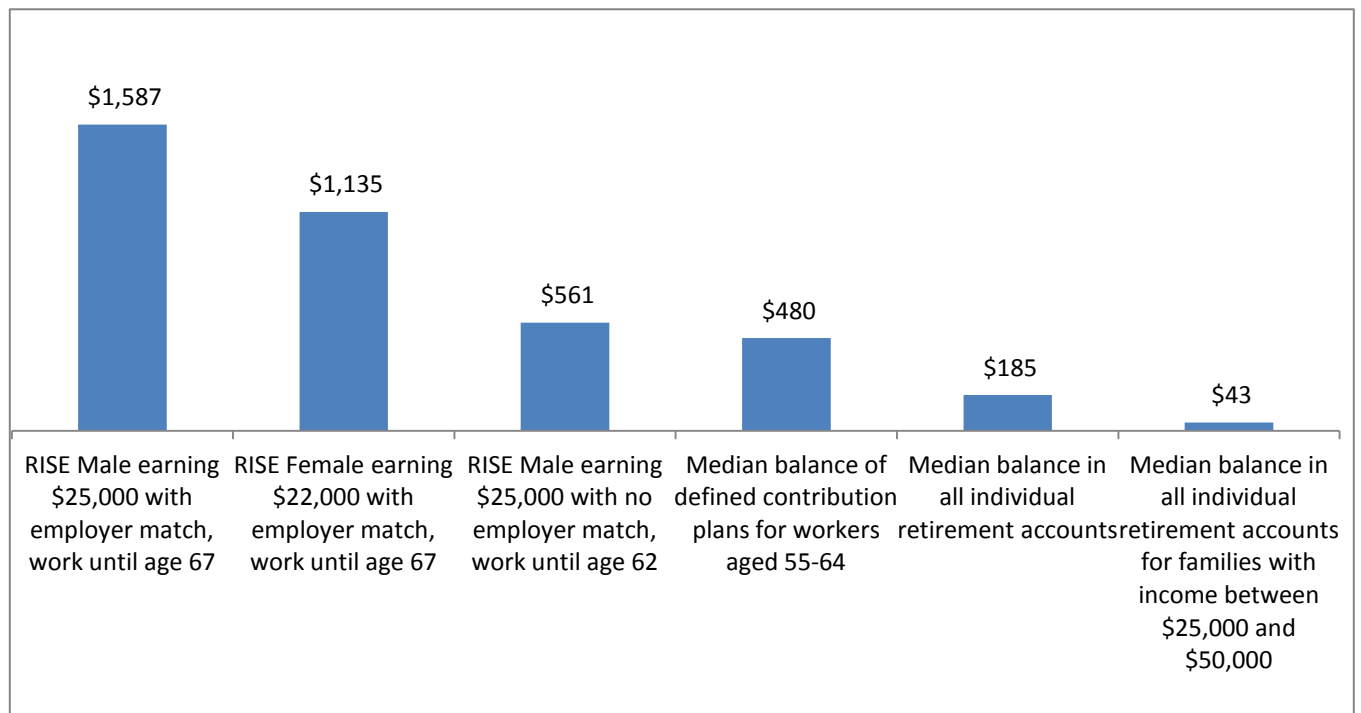
With this system in place, even a low-income worker can significantly enhance retirement income. A twenty five year old male worker, making \$25,000 this year, putting 3% of earnings, or a little less than \$15 a week (\$750 a year) into a retirement account would have almost \$230,000 saved by his retirement. That translates to a \$1587 monthly annuity, more than doubling his Social Security check. This assumes an employer match, a one percent increase in wages every year, a five percent investment return, and work until age 67 with four years off for illness, parental responsibilities, and unemployment.³³

ESTIMATED SAVINGS AT RETIREMENT



Source: Burbank, John, "Washington Voluntary Retirement Accounts Discussion - House Bill 2044 and Senate Bill 6067", 2007

ESTIMATED MONTHLY RETIREMENT ANNUITY



Source: This assumes a one percent increase in wages every year, with between 4 and 7 years off work (men) and 8.85 years off work (women) for illness, parental responsibilities, and unemployment, and an investment return of 5% a year. Calculations are from actuarial estimates by Douglas, W.A., Sergeant Shriver National Center on Poverty Law, October 27, 2005. Source for median balances: Employee Benefit Research Institute data

STATE SUPPLEMENTAL SOCIAL INSURANCE

Enhanced Social Security benefits and RISE Accounts will improve economic security for low- and middle-waged retirees; however, their retirement income, especially compared to their pre-retirement income, will continue to limit choices in retirement. States can begin to remedy this problem by going “back to the future”, re-creating supplemental social security programs that include temporary disability insurance (TDI) and family leave insurance.

In the 1920’s and early 1930’s, states created “old-age pension” programs that were the precedent for today’s federal Social Security system. In 1940, Washington state voters passed into law the Senior Citizens Grants Act, which provided a minimum monthly stipend of \$40 (the equivalent of \$588 in 2009 dollars) to people over the age of sixty-five.³⁴ While voters eliminated Washington’s program via Initiative 172 in 1948, today both Colorado and Alaska still fund and administer old age pension programs.^{35, 36}

Temporary disability insurance (TDI) programs were also founded by several states during the immediate post-war period. Today they are part of the social fabric in California, New York, New Jersey, Rhode Island, Hawaii, and Puerto Rico. More recently, two states – California and New Jersey – built on these TDI programs to establish universal family leave insurance (FLI).

Today, states can take the lead again creating and modernizing state social insurance programs. For example, with 2.9 million workers and an average annual wage of \$46,400,³⁷ a 1% payroll premium would raise approximately \$1.3 billion per year in the state of Washington. Of this, \$158 million, or .12% of payroll (less than 2 cents per hour per low-wage worker), would provide universal family leave benefits and temporary disability benefits of \$250 a week for 8 weeks. In total, .88% of payroll, almost \$1.2 billion, would be devoted to the state supplemental social insurance program.³⁸

State Family Leave Insurance and Temporary Disability Insurance

Family Leave Insurance (FLI) would provide all workers with benefits of \$250 per week for eight weeks upon the birth or adoption of a child, or to care for a seriously ill family member. Approximately 80,000 babies are born each year in Washington. The Washington legislature estimates about 34,700 participants would draw FLI benefits each year.³⁹ This benefit would enable time off of work to care for the child, with the guarantee of employment upon return to work.

Temporary Disability Insurance (TDI) would provide benefits of \$250 for eight weeks for workers suffering from a non-work-related illness or injury. Estimating a take-up rate of slightly less than 1.5%, about 40,000 workers would benefit from TDI each year. By 2060, paralleling anticipated growth rates in Washington state’s labor force⁴⁰, the FLI/TDI program is estimated to cover 125,000 workers.⁴¹ (California’s temporary disability program has a take-up rate of about 3% of the employed workforce each year, while its benefits are almost twice the amount proposed above and twice the average weeks per claim.)⁴²

0.2¢

PER HOUR

WOULD FUND
STATE FAMILY
LEAVE AND TDI
BENEFITS

125,000

WASHINGTON
WORKERS WOULD
BENEFIT FROM FLI
AND TDI IN 2060

COST AND BENEFIT ESTIMATES, FAMILY LEAVE INSURANCE AND TEMPORARY DISABILITY INSURANCE, WASHINGTON STATE

Year	FLI/TDI Participants (1)	Cost @ \$250/week for eight weeks	Revenue: .12% payroll premium (2)	Surplus	Interest on Trust Fund (3)	Total FLI/TDI Trust Fund Surplus
2010	75,000	\$150,000,000	\$158,264,696.16	\$8,264,696.16		\$8,264,696
2011	75,375	\$150,750,000	\$159,644,526.91	\$17,159,223.07	\$247,941	\$17,407,164
2012	75,752	\$151,503,750	\$161,036,387.72	\$26,939,801.68	\$514,777	\$27,454,578
2013	76,888	\$153,776,306	\$162,440,383.47	\$36,118,655.59	\$808,194	\$36,926,850
2014	78,041	\$156,082,951	\$165,487,034.08	\$46,330,932.88	\$1,083,560	\$47,414,493
2015	79,212	\$158,424,195	\$168,590,826.15	\$57,581,123.58	\$1,389,928	\$58,971,052
2016	80,400	\$160,800,558	\$157,440,095.44	\$55,610,588.98	\$1,727,434	\$57,338,023
2017	81,606	\$163,212,566	\$160,392,963.15	\$54,518,419.43	\$1,668,318	\$56,186,737
2018	82,422	\$164,844,692	\$163,401,213.37	\$54,743,258.40	\$1,635,553	\$56,378,811
2019	83,247	\$166,493,139	\$165,645,855.84	\$55,531,527.83	\$1,642,298	\$57,173,826
:	:	:	:	:	:	:
2059	123,943	\$247,885,597	\$246,901,320.41	\$62,071,116.37	\$1,836,553	\$63,907,669

(1) Projected annual overall occupational job growth of .5% from 2009-2012; 1.5% from 2013-2017; 1% from 2018-2060. Estimates for 2009 – 2017 are from Washington state Department of Employment Security, Workforce Explorer. Estimates for 2018-2060 are the author's. The figures shown use 75,000 as a placeholder for benefit calculations.

(2) In 2059, the payroll premium is .095%.

(3) Assumed 3% annualized interest

State Social Security

State Social Security would benefit both current Social Security beneficiaries and future retirees. Current Social Security beneficiaries (slightly more than one million in Washington state)⁴³ would receive an annual lump sum payment of \$250 (approximately \$252 million per year). New retirees would receive payments totaling between \$350 and \$1500 a year, with increased payments dependant on how long the worker paid into the fund.

Paying into the fund for up to one year would result in a \$350 annual benefit, for between one year and two years, a \$450 annual benefit, for between two year and three years, a \$550 annual benefit, etc. A worker paying in the fund for twenty-two years or more would receive quarterly payments of \$375, for as long as he/she lives, commencing upon retirement.

A Good Investment for Workers

Workers contributing into the proposed supplemental social insurance system will realize a healthy return on their premiums. Those contributing for ten years will gain benefits more than six times the value of their contributions, just in supplemental social security payments.

\$1,500

ANNUAL PAYMENT
TO WASHINGTON
WORKERS WITH 22
WORK YEARS
UNDER THE STATE
SOCIAL SECURITY
PLAN

CALCULATIONS FOR A MEDIAN WAGE WORKER RETIRING AT AGE 65

Years contributing to SSS	Annual SSS benefit	Total benefit with avg life expectancy at age 65 (19 years)	SSS/FI/TDI premiums during working life (1% of median wage)	SSS total benefit to total premium ratio (does not include FI/TDI benefits) (1)
1	\$350	\$6,650	\$370.86	1793%
2	\$450	\$8,550	\$741.73	1153%
3	\$550	\$10,450	\$1,112.59	939%
4	\$650	\$12,350	\$1,483.46	833%
5	\$750	\$14,250	\$1,854.32	768%
6	\$850	\$16,150	\$2,225.18	726%
7	\$950	\$18,050	\$2,596.05	695%
8	\$1,050	\$19,950	\$2,966.91	672%
9	\$1,150	\$21,850	\$3,337.78	655%
10	\$1,250	\$23,750	\$3,708.64	640%

(1) The benefit to premium ratio is significantly understated, as it includes the full 1 % premium, but does not calculate the value of family leave and temporary disability insurance.

Surplus, Stimulus, Jobs, Infrastructure, Public Services

While a universal premium of just one percent permits development of social insurance benefits for all workers – a substantial majority of the state’s population, it also creates a potential funding source for economic stimulus, infrastructure development and job creation.

The proposed revenue structure would create more than \$893 million in surplus in the first year, \$1.8 billion in surplus the second year, \$2.7 billion in surplus the third year, and \$3.6 billion in the fourth year. The surplus would peak in year 24 at \$14.4 billion, and fall to \$1.8 billion in year 50.^{44, 45}

This surplus could be used in a number of ways – for example, to fund infrastructure development, school construction, and rapid transit throughout the state of Washington; develop a state-based tuition loan program with interest rates for Washington residents below market rate; or expand the Housing Trust Fund, greatly accelerating the development of affordable housing.

\$14.4
BILLION

SURPLUS IN STATE
SOCIAL SECURITY
FUND AT YEAR 24

CUMULATIVE IMPACT

Enhanced Social Security, RISE Account savings, and state supplemental social security insurance can create true retirement security for low income and middle wage workers.

For a worker making \$35,000, the current calculation for Social Security hovers around \$1,135 a month. These additional retirement options would double the current calculated benefits, bringing retirement income within the accepted standard of 75% to 89% of pre-retirement compensation.⁴⁶

COST AND BENEFIT ESTIMATES, STATE SUPPLEMENTAL SOCIAL SECURITY

WASHINGTON STATE

Year	SSS Beneficiaries (1)	SSS Payments	SSS Revenue (2)	Surplus w/o Interest	Interest on Trust Fund @ 3% (3)	Total Surplus
2010	1,080,885	\$277,429,477	\$1,170,726,531	\$893,297,053		\$893,297,053
2011	1,131,285	\$304,437,591	\$1,180,933,510	\$1,769,792,972	\$26,798,912	\$1,796,591,884
2012	1,181,698	\$338,642,120	\$1,191,229,479	\$2,649,179,243	\$53,093,789	\$2,702,273,032
2013	1,232,465	\$380,374,095	\$1,213,571,583	\$3,535,470,520	\$79,475,377	\$3,614,945,897
2014	1,283,600	\$429,742,408	\$1,236,332,725	\$4,421,536,215	\$106,064,116	\$4,527,600,330
2015	1,324,103	\$484,107,533	\$1,259,520,764	\$5,303,013,561	\$132,646,086	\$5,435,659,648
2016	1,365,589	\$546,485,412	\$1,297,724,884	\$6,186,899,119	\$159,090,407	\$6,345,989,526
2017	1,408,043	\$616,988,157	\$1,322,064,363	\$7,051,065,732	\$185,606,974	\$7,236,672,705
2018	1,450,475	\$695,076,829	\$1,340,225,561	\$7,881,821,437	\$211,531,972	\$8,093,353,409
2019	1,492,889	\$780,734,477	\$1,358,636,239	\$8,671,255,171	\$236,454,643	\$8,907,709,814
:						
2059	2,188,075	\$3,283,166,139	\$2,384,370,195	\$1,727,637,251	\$75,819,575	\$1,803,456,825

- (1) Projected annual overall occupational job growth of .5% from 2009-2012; 1.5% from 2013-2017; 1% from 2018-2060. Estimates for 2009 – 2017 are from Washington State Department of Employment Security, Workforce Explorer. Estimates for 2018-2060 are the author's. The beginning cohort is composed of the number of Social Security recipients in Washington as of December 2008. Assumes that 2.5% of workforce retirees annually. Assumes mortality rates of retirees of 2.11%, 3.29%, 5.28%, 9.89%, 13.25% in five year increments, up through year 20 of retirement; Source: http://www.cdc.gov/nchs/data/nvsr/nvsr57/nvsr57_14.pdf; Deaths: Final Data for 2006, National Vital Statistics Report
- (2) Revenue starts at .88% of payroll, increasing to .89% in 2016, to .90% in 2040, and to .9045% in 2053.
- (3) Assumed 3% annualized interest.

CUMULATIVE BENEFITS FOR A WORKER RETIRING WITH \$35,000 ANNUAL WAGES

Social Security, RISE Benefits, and State Supplemental Social Security for a worker with \$35,000 annual wage as of retirement	Annual	Monthly
Social Security - current benefit calculations (1)	\$13,620	\$1,135
Enhancements to Social Security		
100% of first \$761 (2)	\$913	\$76
40% of increment above \$794 (2)	\$3,672	\$306
RISE with wage at retirement age 67 at \$35,000 with no employer contributions (3)	\$9,528	\$794
State Supplemental Social Security	\$1,500	\$125
Total Retirement Payments with Social Security, RISE and SSS	\$29,233	\$2,436
Percent of retirement income compared to pre-retirement wages	84%	

- (1) <http://www.socialsecurity.gov/cgi-bin/benefit6.cgi>. Estimated for retirement at age 67 in 2049
- (2) <http://www.socialsecurity.gov/OACT/COLA/bendpoints.html>;
<http://www.socialsecurity.gov/OACT/COLA/piaformula.html>. Formula uses bend points as of 2010.
- (3) Assumes 10% of total work life unemployed, 3% payroll contributions to RISE, 1% annual wage increase, 4% interest, 39 years of compensated work. See author's calculations from spreadsheet: "Summary of WVA Benefits with different low wage scenarios for Rebuilding the Foundation (including male age 67)"

CONCLUSION

As with any policy innovation, this proposal presents uncertainty, and this brief is not meant to definitively discuss each consequence and iteration in depth. Some areas which need further development include:

- Size of the supplemental social insurance premium: 1%, 1.5%, 2%, or 2.5%?
- Who pays the premium: workers, employers, or shared between workers and employers?
- Who qualifies for the benefits (work history, work hours, etc.)?
- Is there an age floor to receive supplemental social security benefits? 60? 62? 65?
- What is the best and most responsible way to ramp up benefits for retiring workers?

Of course, the most important question is the political feasibility of this proposal. Even with the best policy, public support and interest are critical to success. While polling shows family leave insurance is viewed favorably by the majority of voters, public support for this comprehensive approach has not yet been gauged.

However, is it clear the popularity of these programs only deepen as they become embedded in the fabric of society, their benefits become more certain and tangible, and their permanence is assumed.

Defining the debate over retirement security

This proposal to enhance retirement security by building upon the foundation of Social Security is a far more effective strategy than entanglement in compromises that will lessen retirement benefits. It reinforces the social contract we have built in our country, in the face of ongoing ideological attacks on Social Security. Merely adjusting the edges of the status quo, re-creating 401(K)s, or providing government guarantees for defined benefit programs that end up underfunded with lesser benefits does nothing to ensure and enhance retirement security.

The strategy outlined in this brief enhances existing programs that stand above the remains of private sector products offering false hopes and weak guarantees. Instead, Social Security and social insurance offer a different pathway. These programs will not make a person wealthy, but they do provide a guarantee to all workers – a secure and dignified retirement. That is an essential foundation of our democracy.

A SECURE RETIREMENT

SHOULD BE A
RIGHT, NOT A
LUXURY

\$2,436

RETIREMENT
BENEFIT UNDER
3-TIER PLAN,
DOUBLING THE
CURRENT SOCIAL
SECURITY BENEFIT
FOR LOW-INCOME
WORKERS

Endnotes

- ¹ Center on Budget and Policy Priorities, Policy Basics: Top Ten Facts about Social Security on the Program's 75th Anniversary, Fact #6, August 13, 2010: <http://www.cbpp.org/cms/index.cfm?fa=view&id=3261>; Purcell, Patrick, "Income and Poverty Among Older Americans in 2008", page 24: Congressional Research Service: <http://aging.senate.gov/crs/aging24.pdf>
- ² Purcell, op. cit. p. 14: 47.6% received 80 percent or more of their income from Social Security
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- ⁴ 2010 Report of the Social Security Trustees, Appendix F. Estimates in Dollars, Table VI.F10.
- ⁵ Purcell, op. cit. p. 2.
- ⁶ Calculation by Dean Baker, e-mail correspondence, November 4, 2009 with John Burbank. See also Working Conference on Women and Social Security, "Strengthening Social Security for Women," July 1999, Task Force on Women and Social Security of the National Council of Women's Organizations and Institute for Women's Policy Research, p. 4, 11, <http://www.now.org/issues/economic/social/1999.pdf>
- ⁷ <http://www.socialsecurity.gov/OACT/COLA/Benefits.html>
- ⁸ The current formula is a political and social artifact of retirement compensations for the traditional post-World War Two nuclear family with a male wage earner and a wife not receiving paid compensation outside the home.
- ⁹ Task Force, op cit. p. 11, <http://www.now.org/issues/economic/social/1999.pdf>
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