

7.65% Solution

a Social Security reform proposal

An Introduction to the

7.65% Solution to Social Security Reform

Principles for Reform

All workers and retirees must receive no less in retirement benefits than under the current system.

All workers must have the opportunity to own and control their personal accounts.

The system must complement and support the U.S. economy, individual liberty and self sufficiency.

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Social Security Reform: The 7.65% Solution

(Enact by: July 4, 2007)

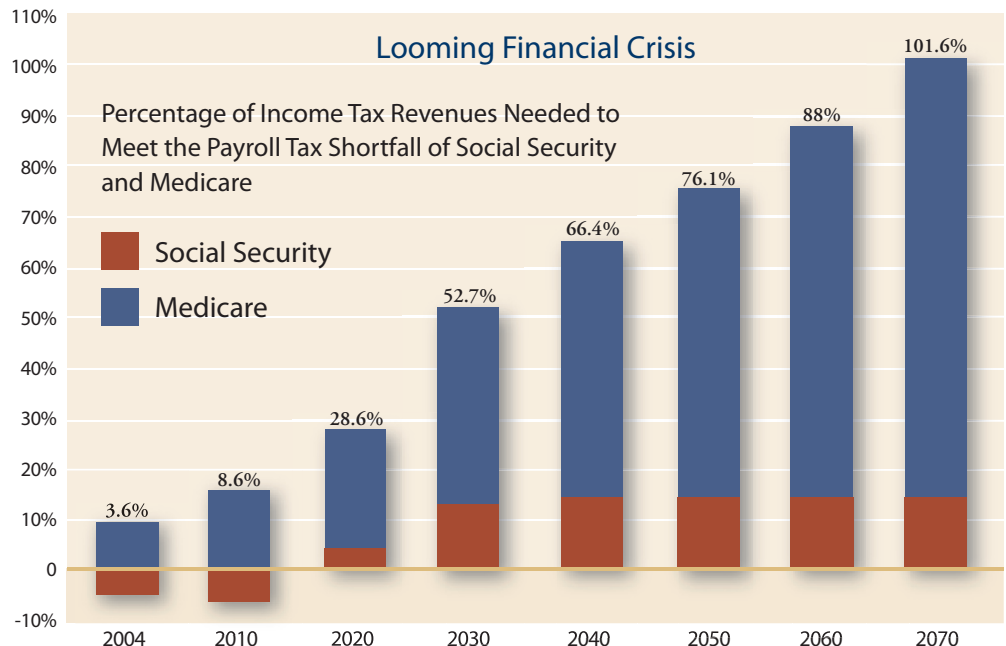
Reason for Reform

There are few opportunities for a nation to reform a major government program and change the course of history. As a nation, with this one issue and this one decision, we now face such an opportunity with Social Security.

The choice to reform Social Security is one our nation is compelled to make. The choice to reform Social Security in a manner befitting the principles on which this country was founded is one for which there is moral compulsion.

The United States was founded on the principle of individual rights and liberties, including property rights and freedom from excessive government control. When the Social Security Act was signed into law in 1935, the tax was 1% of the first \$3,000 of a worker's wages. Today Social Security takes 6.2% of the first \$94,200 of wages. Medicare subtracts an additional 1.45 percent of all wages – with no cap. And these numbers only include the employee's half. Employers match these contributions. Despite these high tax rates, many seniors remain in poverty, each month deciding whether to purchase food or pay for their perscriptions. Further, with seventy-eight million retiring Baby Boomers poised to overwhelm the outdated Social Security system, one of our most popular government programs is about to become the most destructive.

We are at a critical stage in American history. Do we continue our gradual descent to a society where federal politicians and bureaucrats make most decisions? Or do we empower Americans to become free and independent? Because of the looming financial crisis, now is the time to initiate major change. It will require fiscal discipline and political courage. And this discipline and political courage will only occur when demanded by the citizens of the United States.



Source: 2004 Social Security and Medicare Trustees Reports and authors' estimates. Federal Income Taxes are estimated to be 10.89% of GDP which is the 50 year average.

Programmatic Features of the 7.65% Solution

1. Protects Social Security and Medicare contributions (7.65%) by immediately converting the tax to Protected Personal Accounts for *all* workers, including those near retirement
2. Provides much greater income for retirees than the current Social Security system can deliver
3. Ensures investment safety by providing employees with a simple choice among five diversified investment funds in a manner similar to the federal employee Thrift Savings Plan retirement program
4. Gives all workers 23 and older a risk free choice at retirement, when they know all the facts, between traditional Social Security and their Protected Account
5. Continues to provide the current Medicare program for all retirees and for those who are currently age 40 and over
6. Provides Medicare coverage with an increased co-pay to those between 23 and 40 years of age
7. Allows all workers under 23 years old to use their Protected Account as they choose to fund their medical needs in retirement, requiring only that they use a portion to buy a minimum level of catastrophic health insurance
8. Continues disability insurance benefits for all disabled workers exactly as they are today
9. Provides incentive for employers to offer employment to older workers by eliminating any further FICA tax on workers 65 and older
10. Provides incentive for workers to continue working past the age of 65 by making 7.65% Protected Account contributions optional

Economic Features of the 7.65% Solution

1. Totally eliminates Social Security's unfunded future liabilities for both retirement and Medicare
2. Limits the growth of federal government spending to no more than the presently budgeted rate of GDP growth
3. Creates a *real* Social Security Trust Fund
4. Eliminates the employer tax for Social Security and Medicare when investment income from the *real* Social Security Trust Fund is large enough to cover outlays from Social Security
5. Utilizes the *real* Social Security Trust Fund to pay off the national debt

Details of the 7.65% Plan

Converting a Tax to a Savings

All workers would immediately redirect 6.2 percent of their taxable Social Security earnings and 1.45 percent of their taxable Medicare earnings into their Protected Personal Accounts for a total of 7.65 percent. Workers will own and control these Protected Accounts just as they do today with a 401k or an IRA.

Increased Retirement Security and Income

Unlike our current pay-as-you-go Social Security system, the 7.65% Solution utilizes the world's most powerful financial engine – the U.S. economy. Because Protected Account funds are invested in the U.S. economy, the funds will grow at a faster rate than the current system can provide. In addition, not only are the returns better, the Protected Accounts grow exponentially due to the power of compounding.

Compounding works because each year not only do the contributions of each worker grow, so does the money earned in all prior years. For the average worker, the money in their Protected Account will have over forty years to grow during their working lifetime.

Investment Safety

Under the new system, all workers immediately begin investing 7.65% of their wages in Protected Accounts. Each worker owns and controls their account and can choose how the money is invested.

For those concerned with investment risk, the account investment decision will be a simple choice among five funds of stocks and bonds. Workers will not be able to

invest in single companies or anything exotic. In addition for those who don't want to or forget to make a choice, they can rely upon a safe and diversified default plan.

The 7.65% Solution utilizes two layers of account oversight. Investment funds will be approved by an independent advisory board, similar to the Federal Reserve, then the employer will choose, from among the approved funds, the five that best meet the needs of their employees. Employers will also provide their employees reasonable information on comparable past performance results of each fund in order to facilitate decision-making.

Risk Free Choice

The 7.65% Solution gives all workers the benefits of a Protected Account immediately – even those close to retirement. The 7.65% Solution can do this because of a unique feature that allows each worker to make a risk free choice at retirement between their Protected Account and the benefits available under the current Social Security system. The 7.65% Solution is the only Social Security reform proposal that allows every worker to have an account and watch their nest egg grow, while not

having to make a final decision until they know all the facts. By allowing the choice between your Protected Account and traditional benefits, the 7.65% Solution establishes a guaranteed minimum benefit.

Workers will also be given credit for past payments to Social Security by receiving a discounted Social Security benefit in addition to their Protected Account. Here is how the transition will work:

- Americans 64 years and older will receive all of their Protected Account and 100% of Social Security and Medicare benefits.
- People between 41 and 63 years of age will receive their Protected Account plus Social Security at a discounted rate and the standard Medicare coverage or; the worker can choose to receive Social Security and Medicare benefits as promised under current law.
- Those between 23 and 40 years old will receive their Protected Account plus the standard Medicare program but with an increased co-pay or; the worker can choose to receive Social Security and Medicare benefits as promised under current law.

AGE GROUP	OPTION 1	OPTION 2
64 and Over	Protected Account + Social Security: Standard Medicare: Standard	
41 – 63	Protected Account + Social Security: Discounted Medicare: Standard	Social Security: Standard Medicare: Standard
23 – 40	Protected Account + Medicare: Increased Co-Pay	Social Security: Standard Medicare: Standard
Up to 22	Protected Account	

- Americans 22 and younger will have a working life to grow their Protected Account which will be more than adequate to cover all income and health-care needs throughout retirement.

Social Security and Medicare Discount Schedules

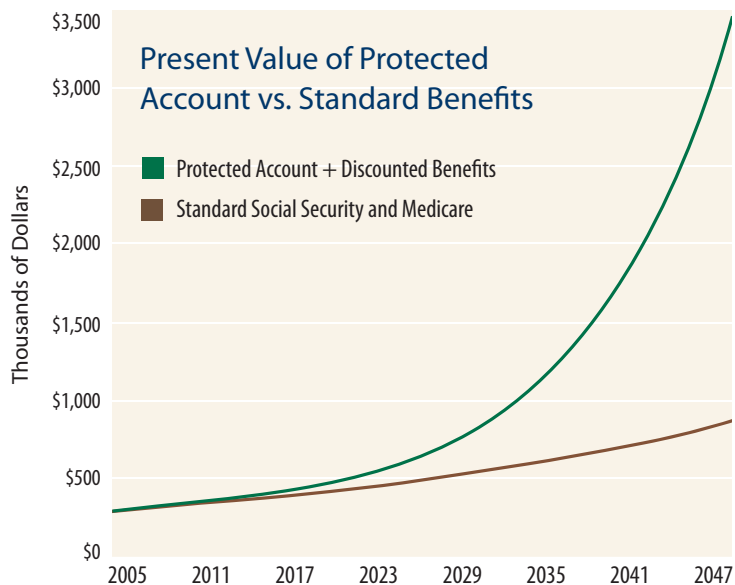
Traditional benefits for account holders would be offset on a graduated scale starting with 2% and increasing every year, such that traditional Social Security benefits would be fully offset for workers 25 years or more from retirement.

Medicare benefits are similarly discounted for workers currently ages 23-40 as Personal Accounts become large enough to cover health care costs. All new workers and those under the age of 23 at the time of implementation will not be eligible for Medicare and will rely solely on their Personal Account for their health care expenditures after retirement. Workers ages 41 and older will continue in the current Medicare system.

The program is designed so that the Protected Account combined with the discounted Social Security benefit will be greater than the amount the person would have received under currently scheduled benefits, but the worker will still be offered the choice of current Social Security system benefits. *(see chart above)*

Retiring With Your Protected Account Nest Egg

During their retirement years, all Americans want the best healthcare that money can buy. Older workers will be given Medicare benefits as promised under the current system, and when younger workers retire they will purchase a health insurance policy covering catastrophic healthcare



events. The Protected Account will help all workers afford Medicare deductibles or insurance deductibles and provide the sort of coverage that Americans deserve.

With their healthcare needs met, retirees can draw on their nest egg as necessary, up to 10% per year, or they can purchase a lifetime annuity and get a guaranteed monthly check to provide for their income needs.

In addition, the 7.65% Solution offers a great new retirement benefit. With today's system anyone working past retirement age is still subject to having their paycheck taxed. Under the 7.65% Solution post retirement contributions are optional. All workers who work past normal retirement age will have the option to continue contributions to their Protected Account or not. This gives everyone over 65 an immediate raise should they choose not to continue contributing. Plus, as an added incentive to provide jobs to those past 65 years old, employers will not be taxed on these wages.

Spouses who work will receive their own nest egg, or 50% of their spouse's Social Security benefit, whichever they prefer.

Those who do not qualify for Social Security because of a lack of minimum qualifying quarters will now receive their own Protected Account nest egg instead of nothing.

Nest Egg Inheritance

Today if a person dies before using up all or any of their Social Security benefits, that person's payroll taxes paid in over a lifetime are simply kept by the government. Under the 7.65% Solution, because that money will belong to the worker, they will be able to pass that money on to their spouse or children or favorite charity just like any other asset.

Disability and Survivors Benefits

The disability portion of Social Security is left unchanged and will continue to be funded by the federal government out of the Social Security Trust Fund.

Survivors would be eligible for the same fraction of the deceased worker's benefit. In addition, survivors would inherit the individual's account balance.

Enhancing the U.S. Economy

The 7.65% Solution provides an enduring financial legacy to the U.S. Economy. Not only does the plan completely eliminate the unfunded liabilities of both Social Security and Medicare, it creates a *real* Social Security Trust Fund. Current employer contributions would continue to be directed to the Social Security Trust Fund. But to make the fund a *real* Social Security Trust Fund, contributions would be invested in an index fund of investment grade corporate bonds, rather than the special-issue Treasury certificates under current policy. Funded in this way, the Social Security Trust Fund will become a real trust fund, not subject to government borrowing. This will directly help private sector companies without the possibility of government control or influence.

Once the *real* Trust Fund becomes large enough to cover all expected Social Security outlays the employer's portion of the Social Security tax will be elimi-

nated. Because this employer tax is part of the imbedded cost of producing goods and services it is ultimately passed on to consumers. When the tax is eliminated, all goods and services will be less costly to produce, which will ultimately reduce the price to consumers.

As the *real* Trust Fund continues to grow it will ultimately be used to eliminate our national debt entirely.

Transition Funding

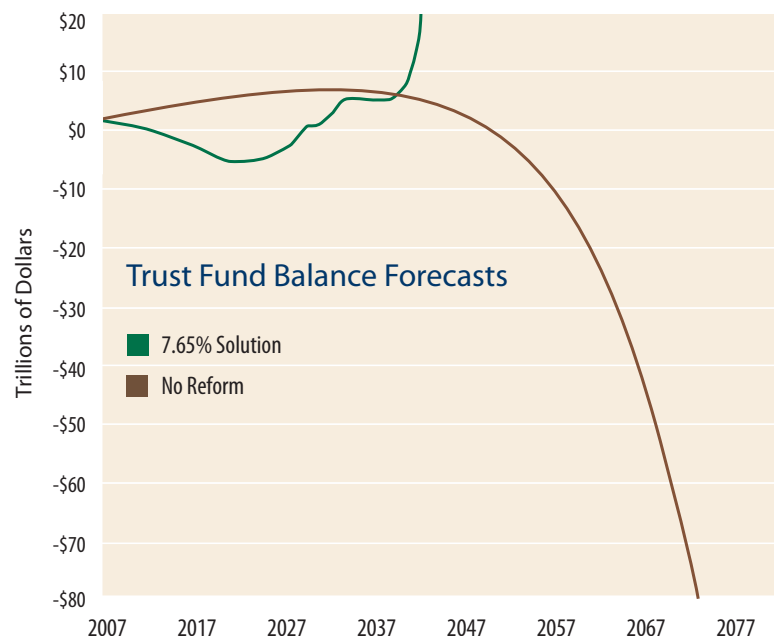
The 7.65% Solution funds the transition through a variety of mechanisms designed to maximize the growth of the U.S. economy and therefore minimize the cost. These mechanisms include:

- Temporarily using the employers half of the pay-roll tax
- Limiting the growth of federal spending to no more than the presently forecasted rate of GDP growth

- Capturing additional tax revenue collected from the increase in GDP caused by Protected Account investments in the economy
- Redeeming approximately \$2 trillion of the existing special-issue Treasury certificates
- Indexing the initial benefits for all workers to increases in the Consumer-Price Index rather than the Wage-Price Index
- More accurately calculating the cost of living adjustments by using the Chained-Consumer-Price Index which corrects for bias in the traditional Consumer-Price Index
- Borrowing approximately \$5 trillion to ensure payment of benefits to current retirees

Dynamic Score Results

The 7.65% Solution has undergone rigorous evaluation to determine its effectiveness. It has been evaluated by a number of independent groups using a variety of modeling methods. While these evaluations have produced a range of results there has been a consensus in the program's ability to bring Social Security to solvency. The graph to the right illustrates the dramatic difference in the future of Social Security with and without implementation of the 7.65% Solution. The brown line reflects the Social Security Administration's intermediate forecast of the Social Security Trust Fund balance without reform. The green line represents the trust fund balance that would be achieved under the 7.65% Solution. The difference is clear; the current system is unsustainable while the 7.65% Solution very rapidly achieves solvency.



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