Don’t Mess With Social Security: An All-American Retirement System: Building for the Future

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While Congress bickers and the President dithers, roads are crumbling, bridges are failing, dams are cracking, and water and sewer systems are leaking all across the United States. If that’s not enough to worry about, the government is threatening to default on the $2.5 Trillion it has borrowed from the Social Security Trust Fund, and few private employers are offering decent retirement plans.

A simple solution to all of these problems can be found in a secure national retirement system that allows all American workers and small-business owners the opportunity to participate in a tax-free infrastructure fund invested in the bonds issued by state and local governments.

Don’t Mess With Social Security

In spite of the constant lies being told by those dedicated to its destruction, Social Security is one of the most successful government programs ever created in the United States.

In 1935, the American people entered into a contract with their government to purchase an insurance policy ensuring they did not become destitute when they were no longer able to work.

Today, more than 90 percent of all workers and the self-employed are covered by Social Security, and one in six Americans, or more than 54 million, are receiving a benefit. Most beneficiaries are receiving a return on their contributions that is far greater than they would have received if they had invested the same funds in the private financial markets.

It has been a good bargain, a win-win situation. For the oversight of their contributions, workers and small business owner only pay one-quarter of the amount paid by private pension funds to their money managers. Overall, more than 99 percent of the premiums go to benefits and less than 1 percent is spent on overhead.

The only unfairness of the system is the annual cap on contributions ($106,800 in 2011), which requires lower- and middle-income workers and small-business owners to pay a higher FICA tax rate (as a percentage of income) than those who earn more than the annual cap.

There is a present surplus, and there are sufficient assets in the Trust Fund to pay 100% of benefits until 2042; however, since only 83 percent of all wages paid are subject to social security taxes, elimination of the cap would increase annual social security revenues by almost 20 percent, or roughly $100 billion per year, more than enough to take care of any foreseeable future “shortfall.”

At a minimum, the law should be changed to establish the income cap at the president’s salary, which is presently $400,000 per year.

The Trust Funds have been wisely and conservatively invested in the interest-bearing bonds issued by the Treasury Department (as required by law), which has benefitted the efficient operation of the government. However, as the overall federal debt has ballooned and the economy has tanked, bond redemption to pay benefits has to be paid out of current tax revenues, or borrowed, which further depresses the economy and increases the debt.

Threats to default on Social Security benefits to American workers and small-business owners place these citizens in a subordinate position to foreigners who have invested in U.S. Treasury securities and who expect full payment.

For perspective, the total federal debt has doubled in the past 10 years to almost $14 trillion, or more than $100,000 for every American household. As of January 2011, foreign holdings of Treasuries amounted to $4.453 trillion, and the amount held by the Trust Fund was only $2.5 trillion.

The only way for the government to satisfy these obligations is to create jobs for workers and to encourage the profitability of small businesses. The smartest way to do this is to repair and improve the infrastructure of America.

Establish a Safe Retirement for Everyone

The average annual benefit of $12,912 paid by Social Security is barely above the official poverty line of $9,000 revealing that the benefit is a minimum safety net, rather than a comfortable retirement.

The number of private employers who offer retirement benefits to their workers continues to decline, and only 18% of workers participate in private plans, compared to 80% of public employees.

In addition, private employers are less likely to offer “defined benefits” based on years of work and levels of pay. Increasingly, private retirement plans are “defined contributions” programs based upon 401(k) plans and Investment Retirement Accounts (IRAs), which are dependent upon the stock market and Wall Street manipulations.

What is needed is a personal retirement plan that is more secure for workers and small-business owners *and* which is good for the country and its economy.

An alternative investment plan would supplement traditional Social Security and allow all Americans to make additional tax-free contributions into personal accounts in a retirement fund that invests its assets in the obligations of local and state governments, rather than the federal government.

Tax-free municipal bonds have always been a wise investment for most people because they provide a better return than passbook savings accounts, without the risk of stock market gambling. A national retirement fund should provide the same benefit to all workers and small-business owners, allowing them to obtain a reasonable return on their investments at a minimal risk to their retirement plans.

Employers could agree to match “All-American” contributions as a job benefit; employees could move their accounts with them from job to job; workers could negotiate the level of each subsequent employer’s contribution; and small-business owners could safely invest in their own futures.

Retirees could decide for themselves whether to invest their savings in a lifetime annuity at retirement; they could choose to spend their entire nest egg as they please; or they could leave it to their heirs.

The stability of investments in state and local bonds would require minimal management costs, increase the rate of returns, and would allow the principal and earned interest in personal accounts (which could be withdrawn at any time to meet emergencies) to be guaranteed by the federal government just as it does for bank deposits.

All-American accounts could be established by parents at the birth of their children and grow throughout an individual’s lifetime until they choose to retire. There could be survivor benefits similar to those provided by traditional Social Security, and the personal accounts could mature as early as age 55, allowing workers and small-business owners to transition into other, and perhaps more interesting secondary careers.

The United States would benefit as a whole from an alternative personal savings plan by having a readily available, domestic source of investment funds to restore and improve its state and local infrastructure and public facilities.

Rebuild the Infrastructure

One of the driving forces of the U.S. economy during the last 60 years has been the construction of a vast infrastructure including roads, bridges, water and sewer systems, river locks and dams, all of which is at great risk, especially in the case of a massive earthquake or other natural disaster.

Today, 25% of U.S. highway bridges are “functionally obsolete,” “structurally deficient” or simply too old to be safe, and vehicle traffic congestion alone costs Americans $78 billion annually.

Public water systems waste more than seven billion gallons of fresh water each year, and the rising cost to repair them is now estimated at $335 billion.
Billions of gallons of untreated wastewater are discharged each year into rivers, lakes and oceans, and more than 4,400 dams are susceptible to failure.

The cost of repairing the overall infrastructure is estimated at $2.2 trillion over the next five years. However, every billion dollars invested in the maintenance and repair of the infrastructure will create 35,000 jobs and will generate $6.1 billion in new economic activity.

Construction of the current infrastructure was subsidized by the federal government, including the interstate highway system, locks, dams, bridges and water and sewage systems; however, the cost of maintenance and repair has increasingly fallen on the states and local authorities as the federal contribution has decreased over time.

President Obama wants to invest $50 billion to upgrade the infrastructure; however, he is also promising to cut the federal budget and to "live within our means." Senators Kerry, Hutchison and Warner recently proposed to invest $10 billion in an "infrastructure bank" that would encourage private investment in large building projects that will generate a return, such as toll bridges and tunnels.

These funds would be better used as a nest egg for an All-American Fund to encourage the private investment by millions of workers and small-business owners into public systems that provide a benefit for everyone instead of Wall Street bankers.

To avoid waste and corruption, the All-American Fund should establish a "national clearinghouse and database of infrastructure-related design and construction issues," and funding should be limited to projects that are comprehensively planned and are based on fixed price contracts.

Ensure the Future

The quality of life offered by the United States, and its infrastructure, has become a model for the rest of the world; however, it is both naive and arrogant for Americans to expect other people to risk their hard-earned money to pay for its maintenance.

It is time for the United States to do what it does best: come up with a better way to ensure the future of its children. An All-American Retirement System will do that, and it will help the U.S. to regain the respect and admiration of the world.

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