The AMAC Social Security Guarantee

AMAC's founder, Dan Weber, has been in the forefront of the fight to address the problems facing America's Social Security program. In AMAC's view, Social Security has two long-term weaknesses:

(1) The level of financial support projected for future beneficiaries will be inadequate, given the evaporation of private pensions and the steadily rising cost of living. The AMAC proposal addresses this with a tiered approach to COLA adjustments that guarantees yearly increases weighted to support low incomes, and the implementation of an Early Retirement Account (ERA) designed to provide a way for workers to accumulate a financial base sufficient enough to enable retirement before becoming a Social Security beneficiary.

(2) The program in its current configuration is paying out more than it's taking in, causing a gradual depletion of the Social Security Trust Fund. If left unchecked, projections are that the Trust Fund balance will be exhausted by 2034, with the result being a substantial scale-down of payments to beneficiaries. AMAC's proposal calls for a two-year setback in the early and normal retirement ages and an adjustment to the Primary Insurance Amount (PIA) for higher wage earners.

As an action-oriented association, AMAC is resolved to do its part to call for action on this very serious problem, and has developed a simple, actuarially sound solution to the long-term Social Security solvency problem. We've advanced this proposal on Capitol Hill, with AMAC representatives resolute in their mission to get the attention of lawmakers. Many meetings and discussions with congressional offices and their legislative staffs over the past several years have explored the AMAC approach, with the result that the ideas contained in the proposal have begun to gain traction with legislators.

AMAC's proposal has two Prime Directives. First, to maintain the same or increased benefits for those with lower earnings. Second, to provide a means for all earners to have more income available at retirement. We believe this proposal succeeds in achieving both of those directives, while restoring solvency to the Trust Fund.

The Prototype Plan – Keep basic Social Security, guarantee Cost of Living increases each year.

1. IMPLEMENT A TIERED APPROACH TO THE CALCULATIONS OF COST OF LIVING ADJUSTMENTS (COLA) AS FOLLOWS:

a. For Beneficiaries with a household income (AGI) level less than $20,000, set an annual COLA range of 3% minimum – 4% maximum.

b. For Beneficiaries with a household income (AGI) between $20,000 and $50,000 set an annual COLA range of 1.5% minimum – 3% maximum.

c. For Beneficiaries with a household income (AGI) of $50,001 or higher, set an annual COLA range of 1% minimum – 2% maximum.

Note: in 2009 and 2010 there was no Social Security increase even though gas and food prices rose. ***Under this plan, all retirees will be guaranteed to have an increase each year.***

2. IMPLEMENT A SETBACK IN THE RETIREMENT AGE FOR NEW RETIREES,

a. At present we do not recommend a change in the early retirement age which should remain at age 62. The percentage of benefit reduction for early retirement would continue at 20%.

b. Starting in 2017, phase in a change in the normal retirement age (NRA) by adding three months each year so that by 2024 the NRA would be age 69, instead of the present age 66-67 depending on birth year.

3. CHANGE THE LEVEL OF PAYMENTS FOR FUTURE RETIREES STARTING IN 2019

Adjust the Primary Insurance Amount (PIA) keeping lower income earners benefits the same and lowering benefits for higher income earners.

AMAC has examined the many proposed solutions presented in the intermediate assumptions portion of the 2012 Trustees Report and selected the alternative we feel provides the best solution, when combined with our other recommendation, to achieving long term solvency.

> **B1.4** Progressive price indexing (50th percentile) of PIA formula factors beginning with individual's OASDI benefits in 2019: Create a new bend point at the 50th percentile of the AIME distribution of newly retired workers. Maintain current-law benefits for earners at the 50th percentile and below. Reduce the 32 and 15 percent formula factors above the 50th percentile such that the initial benefit for a worker with AIME equal to the taxable maximum grows by inflation rather than the growth in the SSA average wage index.
> Proposed by the Social Security Advisory Board
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> *Source: 2012 Trustees Report*

The AMAC Social Security Guarantee prototype plan combines the three provisions shown above and includes the addition of a new benefit that we feel Social Security must include if it is to help and encourage workers to attain a secure retirement.

Early Retirement Account added as a companion voluntary benefit. This feature would:

- Allow workers to retire at age 62, prior to receiving Social Security
- Provide additional funds for retirement for all workers.

Why a new Early Retirement Account? The average person receiving retirement benefits collects slightly more than $14,000 per year. 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. There is an urgent need to help workers save more for retirement.

The Early Retirement Account (ERA)

- Voluntary ERA for both employee and employer
- Tax deduction for employer, after-tax for employee with income sheltered
- Employee not taxed on receiving funds (similar to a Roth IRA)
- Paid via payroll deduction, employer provides the contribution slot to employee
- After the ERA becomes available, employer must offer to all employees (full and part time)
- When new employees are hired, they must opt out of the ERA or they will be enrolled at $10/week
- The weekly minimum is $5, the weekly maximum is $100 or $5,200/year
- Employer may elect to contribute to employees' Early Retirement Account in any amount or percentage of pay they choose up to $50 per week ($2,600 per year)
- The employer may start or stop their contribution at any time

The individual is the owner of the Early Retirement Account

- Portable; if wage earner changes jobs, the new employer must add payroll access for ERA
- Funds only available to wage earner at age 62 or because of death or total disability
- Wage earner may elect to start receiving payouts at any age between 62 and 70 ½
- Death benefit is the accrued value of account at time of death
- Early Retirement Account benefits, including earnings, are tax free
- Contribution is indexed for inflation ($5 week raised to $5.15 week if 3% inflation, etc.)

Investment options for the Early Retirement Account

- 50% of the funds must be invested in guaranteed interest accounts or annuities
- The other 50% may be invested in any approved investment (i.e. S & P 500 index)
- A volunteer board of investment experts creates lists of approved investments to assure quality
- Investment choices would be similar to those used in 401k plans and IRAs and the cost of administration would be borne by the same providers who offer those plans, not the federal government

Examples of projected savings from the Early Retirement Account	
Assumptions:	50% of funds in a guaranteed account earning 3% * 50% of funds invested in S & P 500 index, average return of 7% * Modest employer contribution of $50/per month, $600/year * Historical average returns

A 25 year old wage earner contributing only $15 per week, using the above assumptions, would have accumulated $165,407 by age 62.

A 25 year old wage earner contributing $45 per week, with the same assumptions, would have accumulated $352,389 by age 62.

It is estimated the average wage earner will accumulate between **$250,000 and $500,000** because workers increase their contributions as they become older and receive pay increases.

How the AMAC plan achieves solvency

The projected shortfalls in the Trust Fund are shown in the Trustees annual report. There are two actuarial projections used; the long-range balance and the annual balance in the 75th year from the report.

Both balances are in the negative, the long-range actuarial balance is expected to be -2.68 and the 75th year annual balance is projected at -4.65. The AMAC proposal combines three different changes, each improves both of the actuarial balances and the total effect could achieve the goal of showing positive balances.

It must be understood that because of the interaction of the changes on each other, AMAC cannot predict, for certain, that the total results will cover the entire shortfalls.

The office of the Chief Actuary will be asked to conduct the rigorous and detailed analysis required to determine if a true surplus in the Trust fund will actually occur.

It is likely that adjustments will need to be made to the three components of the AMAC Social Security Guarantee proposal. With the assistance of the Chief Actuary and with input from the staff of both the House Ways and Means Committee and the Senate Finance Committee, and with the cooperation of the leadership of both Houses of Congress- we can achieve financial solvency.