

Solving Social Security Fire the Politicians!

AS AN INVESTOR, I've always wondered why Social Security is such a problem. What's so difficult about managing this particular trust fund, and why is it so different from other investment accounts that pay out a constant stream of income? The private sector does it routinely with defined benefit pension plans and fixed annuities, so what's the big deal? Is Social Security failing because it hasn't been invested soundly, or is there some other reason?

The most obvious explanation is politics, but we're running out of time for finger-pointing, and Social Security is solvable in a surprisingly painless manner. It will require

a whole new approach that uses old ideas and institutions in ways that most of us have pretty much given up on. As hopeless as the Bush administration's nicotine patch for

Social Security would have been, it pointed in the right direction.

Now don't hit <DELETE> when I refer to "privatization" or when I mention one of my own most hated financial products, the "annuity." Both are needed to permanently fix the Social Security mess, to get it away from people who are neither managers nor investment specialists, and to make the whole system work more economically. The purpose of this article is to get you to think about it... and to elect a hero with the guts to fix it. Unfortunately, Joe DiMaggio has left the building.

Are you surprised that there is no "Social Security trust fund"... no investments and no investment managers? This is a gigantic government-designed and controlled Ponzi scheme that has worked incredibly well in spite of congressional tinkering and prohibitively high cost. There was always a tax plan for funding the benefits but never an investment plan. And as difficult as it is for me to admit, no sophisticated investment plan is really necessary. We just need a new (reduced) contribution plan, one that isn't designed to fund every politically sensitive entitlement that compromises itself down the aisle. We need a simplified benefit structure that supplements privately funded (untaxed) retirement programs. (Health care just has to be a separate issue, perhaps an actual managed trust fund, and certainly something that shouldn't be



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funded by private citizens until there is meaningful tort reform in this country.)

Phew! Back to the point. We can eliminate all the unnecessary bells and whistles simply by mandating personalized benefit funding. Let the politicians deal with homeland security while the private sector deals with things financial.

After the repeal of the Social Security tax and implementation of mandated individual retirement plan contributions, the Social Security bureaucracy will retain several important functions:

- 1.** Qualifying private-sector companies and licensing them to provide Social Security retirement income annuities (SSRIAs). Thousands of providers will be needed, but only fixed-income experienced, profitable companies need apply.
- 2.** Developing a computerized system for participant/provider matching; inspired randomness is essential.
- 3.** Proactive monitoring of compliance with the minimal rules, installation of fraud detection systems, and investigation of all violations by providers, participants, and retirees.
- 4.** Keeping the plan sacred, simple, and principally unchanged by future legislation. The plan must be kept simple and profitable for providers, painless and visible to participants, timely and comprehensible to retirees.

The SSRIA is a new and improved version of the ancient deferred fixed-annuity contract, a boring but guaranteed retirement benefit vehicle, funded by both mandated and voluntary payroll deductions, with a whole bunch of new wrinkles that make it an ideal Social Security re-

placement program.

For example, and unlike existing annuity contracts:

- 1.** Participants will be allocated to “qualified SSRIA providers” so there will be no sales commissions, no business acquisition or retention costs, no advertising expenses, etc.
- 2.** All SSRIA contracts (regardless of provider) will contain the same terms, interest guarantees, retirement benefit choices, and pre-retirement death benefits, thus eliminating any incentives for internal fraud and manipulation of statistics.
- 3.** Qualified providers will establish separate subsidiaries to manage and control SSRIA operations and to assure that only high-quality, income securities are used to fund future benefits.
- 4.** All qualified providers will use the same mortality, investment earnings, and expense assumptions, and all benefits will be fully guaranteed by the parent corporations.

The SSRIA is a supplemental retirement program, funded by a much smaller, yet flexible, payroll deduction, and it’s designed to be the foundation of a retiree’s total retirement package—a benefit floor. Participants will choose (annually, for the following year) to deposit from the required 2 percent up to a maximum 4 percent of their pre-tax income to their personal SSRIA, a contract that will follow them everywhere, from employer to employer, throughout their working years.

Before retirement, a death benefit equal to the full cash value of the contract will be paid to the designated beneficiary. At retirement, participants can elect either a

life annuity or a joint and 50 percent survivor annuity. No variable plans of any kind will ever be allowed; there will be no loan privileges, withdrawals, or dividends. Providers are expected to make a reasonable profit, which will ultimately be determined by their operating and investing abilities.

Hmmm, I smell capitalism.

Employer-sponsored benefit programs and individual savings and investments are expected to make up the bulk of private retirement programs. The SSRIA will ensure that everyone has something, but individual savings and retirement plans, both company-sponsored and personally funded, will be encouraged by new IRS policy: No retirement income, regardless of source will be subject to income taxation! Neither employers nor self-employed persons will be required to make matching contributions of any kind to employee SSRIAs. They will, however, be encouraged to use their improved cash flow to increase employment or to reduce prices, perhaps by a new system that will reduce their corporate income tax obligations as a reward for boosting the economy. Similarly, billions of dollars of discretionary spendable income will find its way back into the economy from consumers whose payroll deductions have been slashed deservedly. ●

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