Press Release

The CIVIL 501K: Transforming Federal Retirement Programs with Lower Taxes?

Giving the Economy a Bump to Restart the Economy

*The following retirement reform package was sent to the president and key members of the House and Senate earlier this week.*

(Scottsdale, 5/9/2020)

Proposals for fixing the underfunding of our retirement system have cropped up over the last two decades. Solutions have included: ignore the problem and borrow the money; tax the rich; reduce benefits by a third; or increase taxes. The Social Security Trust Fund Annual Report recommended increasing Medicare and Social Security taxes to 15.1% from 7.65% to erase the nearly $50 trillion in unfunded mandates.

If the reader has no memory of these options being proposed by Congresses or Presidents, it’s because these solutions don’t make for good campaign rhetoric because they don’t fix the funding problem, and they would do great harm to our economy.

Are there other options? Not in Washington.

Getting outside the echo chambers from inside the beltway is necessary. Thinking like a political entrepreneur, like an outsider - a political unicorn - is essential.

What lies at the core of the underfunding? First, while the Social Security retirement age has increased by only two years since the program’s inception, Americans are living an average of seventeen years longer. Second, the retirement system, which was focused originally on the poor, now provides benefits to everyone, even the richest.

To keep the system afloat for the last eighty years, the tool of choice has been raising taxes. Since the program’s inception, retirement taxes have been raised thirty-two times; Social Security tax rates are up 765%, and Medicare taxes are up 414%. Increasing taxes to the Social Security Administration’s (SSA) proposed 15.1% would be the largest increase for poor and middle-class workers in history.

If increased taxes haven’t stayed financial bloodletting, then what could produce a financially sustainable retirement system?
Enter the CIVIL 501K, a complement to the 401K, which is today available to only about half of citizens. The CIVIL’s 501K rests on three pillars:

First, allow the retirement age to float up with life expectancy, replacing a static age. The late Harvard economist Martin Feldstein argued that the retirement age needs to increase. CIVIL recommends two and a half years. The equation for retirement age would be written as current life expectancy (78.5) minus nine years or around 69.5 years.

Second, update Medicare to a fixed benefit solution. Under the 501K plan a fixed benefit would allow Congress to means-test the wealthiest, such as billionaires, so that they pay their fair share into the nation’s retirement system.

Third, with means testing, today’s top five percent of retirees would need little or no dollars from the safety net. The reasonable politician may be more inclined to accommodate fixed benefits because no one wants our kids to endure that 15.1% tax rate to pay for the $50 trillion in underfunding of the current system.

Each of these recommendations reduces the federal retirement budget between 10% and 15%. As these reductions increase over time, workers are able to add a larger and larger portion of their retirement taxes into their 501K.

What are the benefits?

- The CIVIL 501K will produce the biggest tax cut in history for the poor and middle class. Most important, the nest eggs of the poorest – consider the minimum wage worker for the last fifty years – would have $100,000 in the 501K. This is more savings than two-thirds of workers retiring today.
- National wealth (the total of personal nest eggs) will grows to $100 trillion dollars over the next forty years. At a minimum, increasing wealth and decreasing retirement program costs will improve economic growth another .50% - 1.0%.
- Overall cost reductions in the system will vastly reduce retirement underfunding if not erase it.
- The cost of the retirement programs will decline over time, reducing deficit pressures. Over the first forty years, half of retirees will need no help from the safety net, reducing the cost of the safety by more than 70%. Under the most optimistic of metrics, this number could rise to 90%. Had the 501K been in place the last few decades, the current $1 trillion deficit would be close to zero.
- The initial savings rate would be 4.65% of the current 7.65% retirement taxes, reducing the tax portion to 3%. With more wealth created for workers each year, after twenty years, savings rates will grow to 6% (of the current 7.65% tax) and a 1.65% tax for the safety net. The employer tax contribution would begin to fall as well.
- Net-net: Fewer and lower taxes, a highly served safety-net for the poor, gains in wealth for all, and an economy with increased growth as high as an additional 1%.

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