Investment Politics: Jobs, The Economy, and Social Security

Who wants to be a president; the President of the United States? Social Security reform is the winning ticket. Research supports the thesis that Social Security reform would provide all the lubrication necessary to get our economic ball bearings rolling in the right direction. Economies do not grow, or increase employment, when job providers are taxed and regulated unmercifully, throttling their energy, creativity, and profitability. Consumer spending pushes the economy; we need to do more than hand out a few hundred bucks.

The objective of the exercise, Barack, is to permanently place more disposable income in consumers' wallets while providing incentives for employers to hire more workers. There are three areas where the impact of reforms would be beneficial to all, irrespective of political sentiment. Social Security reform would benefit the most people, most quickly. Next on the list, Hillary, would be elimination of income taxes (federal, state, and local) on: (a) all forms of retirement income, and then, (b) all forms of investment income. Third, and particularly important for job creation, John, would be the elimination of all income taxes and nuisance fees on businesses. Who wants to be President?

Social Security will be the easiest to implement quickly while producing unprecedented increases in disposable income, business cost reductions, and job growth. Here's a rough outline of a brainstorming plan. Throw out the politics and focus on the program--- phase one deadline, January 1,2010. Change Social Security funding to a mandatory, private program, for all employed persons, and add a voluntary program for those who are not employed. All employees would contribute to deferred fixed annuities, purchased from new divisions of qualified financial institutions. Existing Social Security credits would be the initial deposit to the contracts for all participants under age 60.

Employer matching contributions would be eliminated and participant contributions would be cut to a mandatory 3% of total compensation (including deferred comp, stock options, etc.). Both changes would be phased into the system by participant age group over a five-year period, youngest first. The five age groups would be 13-year periods starting at zero to thirteen (obviously for voluntary accounts) and ending with ages fifty-two through sixty-five.

Phase one would involve qualifying providers, assignment of workers, issuance of contracts, elimination of employer matching contributions, and elimination of income taxes on social security payments. Employers would be required to appoint at least one person to coordinate the transition. Contributions to the annuity contracts would begin upon issue; the Social Security Administration (SSA) would have five years to move credits to participants, starting with the youngest group, and would be responsible for shortfalls to retirees for five years.

Under the new system, there would be no penalties for early retirement, but tax free annuity payments would begin at age sixty-five whether or not the person continued to work. Participants could voluntarily establish retirement accounts for non-working spouses and children, and could elect to deduct an additional 1% of salary for each account. A new Federal Administration for Social Security (ASS) will select, qualify, and monitor provider companies and their investment portfolios to assure that only high quality, income-generating securities are used to fund benefits. Companies showing a surplus would be able to invest up to 25% of the surplus in stocks that qualify for the Investment Grade Value Stock Index (IGVSI).

Only fixed life annuities would be available, but there would be 50% of cash value, family-only, death benefits up until the time of retirement. After age 65, the death benefit would be reduced 10% per year for four years. There would be no loans, withdrawal privileges, etc.

The ASS would be represented on provider company boards, would monitor annual audits of firm financial statements, and would supervise the selection of all non-company directors (60% of the board). Each provider company would be encouraged to use non-market value portfolio assessment techniques, such as The Working Capital Model, to monitor income portfolios. Retiree associations would also be represented on company boards of directors, and board member compensation would be capped at a reasonable number, plus 45% of ASS related expenses.

Annuity providers would be assigned a fair share of the huge Social Security Retirement Income Account (SSRIA) participant pool; every dollar contributed would be invested. All providers would use the same mortality tables and base interest rate guarantees in their calculations and would be precluded from any form of advertising. Companies would be required to focus 100% of their efforts on the SSRIA.

Annuity providers would be allowed a .5% investment management fee so long as the Annuity Investment Portfolio generated no less than the 3.5% income level needed to fund a guaranteed 3% contractual cash value growth rate. 50% of any excess realized income would be added to retirement accounts in the form of dividends. The remaining 50% would be apportioned between three separately managed accounts for: retirement benefit support contingencies (20%), universal health care and disability benefits for annuitants (50%), and post retirement death benefits (10%). Half of the remaining 20% would become "surplus". The balance would accrue equally to the employees of the insurance company--- the mailroom staff receiving the same dollar amount as the CEO.

These changes would produce: a whole new sub-industry of jobs, increase disposable income, reduce the Federal budget deficit, provide universal retirement benefit eligibility, stabilize the market for plain vanilla corporate and government debt securities, reduce corporate expenses and product price levels, and subsidize health care for senior citizens. Annuity providers would have significant incentives to minimize costs, but their investment portfolios would be closely supervised to prevent excessive risk.

Politicians at all levels just love for us to hate big business, and have no compunctions about taxing and regulating employers in every manner imaginable. The impact is higher prices, lower job creation rates, and the need to move many operations to lower cost environments. Many small businesses simply refuse to hire additional employees. Regulatory procedures and company defense measures add billions to the costs of goods and services.

Social Security benefits are grossly inadequate yet we continue to tax all forms of retirement benefits. Politicians ignore the simple solutions to these problems and no one seems to care about Social Security reform. It's just too big an issue to be so shockingly ignored, but the last politician with any courage--- well, I can't remember who that was either.

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