RISE

Retirement Income Security for Everyone

A proposal that eliminates poverty and income inequity in retirement for all future generations of Americans

Frequently Asked Questions

1. Why would anyone support a program that doesn't provide benefits for 70 years?
2. Why would anyone buy RISE Bonds, since the returns are so low and the benefit isn't exclusively, or even primarily, for their own family?
3. Wouldn't RISE cause people to become lazy? Why go to college or get a job if retirement is automatically provided?
4. Why provide retirement income based on household income levels? Why not give all babies an equal amount of income at retirement?
5. Can RISE be used to pay for college or buy a home?
6. What about immigrants?
7. What if the assumptions used by RISE fail to materialize?
8. Is RISE meant to replace Social Security?
9. Is RISE meant to replace 401(k) plans?
10. How does RISE compare to the "Baby Bonds" proposal?
11. Where did the idea for RISE come from?

Retirement Income Security for Everyone

Frequently Asked Questions

1. Why would anyone support a program that doesn't provide benefits for 70 years?

Actually, newborns and their families will enjoy benefits immediately, even though the newborns won't receive income from RISE until their retirement years.

This is proven by numerous studies of the SEED OK program created by Oklahoma. Since 2007, the state has opened College Savings Plan accounts for thousands of newborns, depositing $1,000 into each account. Several studies of SEED OK reviewed by Washington University in St. Louis,[1] for example, have compared the parenting practices of 1,130 families, four years after their children received SEED OK accounts, to 1,098 families whose children who didn't get accounts.

The results clearly show that depositing money into college savings accounts for the babies materially improved the parents' mental health and the children's well-being.

Actually, newborns and their families will enjoy benefits immediately

Mothers of young children enrolled in the program recognized the value of saving and identifying both short-term goals, such as "saving for a rainy day," and long-term goals, such as buying a home or saving for retirement. Almost all the mothers whose babies received SEED OK accounts have expressed high aspirations for their children – far above the rate of parents whose children did not receive SEED OK accounts.

Most importantly, mothers of children in the program reported lower levels of depression than the other mothers, and their children scored better on tests of social-emotional development. The researchers theorize that providing assets in early childhood increases parents' perceived levels of economic safety and enhances their optimism regarding their child's long-term development. It also improved the parents' mental health, which also led to increased positive parenting practices.

Mothers of children enrolled in SEED OK expressed more hope for their children's future than mothers of children not enrolled. Many says the $1,000 deposit demonstrates that someone outside the family cares about their children's future. Knowing the account exists changed the attitudes of some parents, causing researchers to believe that the children's educational outcomes will be improved. Future studies will examine these outcomes on high school and college graduation rates.

Oklahoma's success has spurred other states to implement similar programs, including Maine, Nevada, Connecticut and Pennsylvania.

Providing a mere $1,000 to a newborn for college is actually of limited economic value (see FAQ: "Can RISE be used to pay for college or buy a home?" below), but is of tremendous psychological and emotional value – and this attitudinal shift goes far in helping children grow up in safe, stable and nurturing homes where they are encouraged to stay in school, go to college and pursue financially rewarding and emotionally fulfilling careers. If all that can be accomplished with a $1,000 deposit into a College Savings Plan that can't by itself pay for college, imagine what a $5,884 deposit into a RISE account will do for every family in America. Indeed, the benefits will begin as soon as the program is launched, not merely 70 years from now.

2. Why would anyone buy RISE Bonds, since the returns are so low and the benefit isn't exclusively, or even primarily, for their own family?

Because people aren't so selfish or self-centered. Americans in particular are the most generous in the world, with the United States ranking #1 by the World Giving Index for the 10 years ending 2019.[2] In 2017, for example, Americans donated $410 billion to charitable organizations, the highest amount ever given to that point. This continues the American trend of ever-higher levels of annual giving (excepting only 1987, 2008 and 2009 – years of massive stock market crashes), according to Charity Navigator.[3]

It's not just Americans who are generous; most people worldwide support others. In a remarkable German experiment begun in 2014, researchers wanted to give 650 randomly selected people 1,000 euros (about $1,200) a month for a year – simply to see what they'd do with the money.

It's likely that demand for RISE Bonds will exceed supply

The problem was finding the money for the program. After issuing requests on social media, 140,000 Germans donated almost $10 million – more than enough to fund the research.[4]

And those 140,000 people provided funding knowing they will never get their money back. By contrast, those who fund RISE will not only dramatically improve the lives of every baby born in America – a goal millions of Americans support – they'll benefit financially by helping. Indeed, RISE seeks investments, not donations, and everyone who purchases a RISE Bond will get 100% of their money back, plus interest.

Instead of wondering if the Treasury Department will succeed in raising enough money to fully fund the RISE program, it is more likely that demand for the RISE bonds will exceed the supply.

3. Wouldn't RISE cause people to become lazy? Why go to college or get a job if retirement is automatically provided?

Even though children will grow up knowing their retirement is more financially secure thanks to RISE, the program does not help them in their 20s, 30s, 40s, 50s or 60s.

If anyone wants a home or car, wishes to purchase clothing, or enjoy travel, leisure and recreation, well, they'll need money. And the best (only?) way for most Americans to obtain it is by earning an income. That means getting a job – and the more education one has, the higher the income one is likely to earn.

Jobs provide more than money, too. Two-thirds of workers say they choose to work for mental stimulation and challenge, according to AgeWave.[5] Indeed, work can keep your mind and body active and provide a sense of belonging. Social isolation, meanwhile, is linked to high blood pressure, heart disease, obesity, a weakened immune system, anxiety, depression, cognitive decline, Alzheimer's disease, and death, according to research from the National Institutes of Health.[6] All this provides reassurance that RISE will not lead to unintended consequences.

RISE's influence on behavior is highly likely to be positive

In fact, the opposite is more likely. Thanks to RISE, the next generation of Americans will know their financial future is more secure – enabling them to choose careers they are passionate about, instead of those that might merely be more financially rewarding. For example, they might become teachers or first responders instead of pursuing a corporate career.

If RISE has any influence on behavior, it is highly likely to be a positive one.

4. Why provide retirement income based on household income levels? Why not give all babies an equal amount of income at retirement?

A prior proposal does exactly that. It's called the T.R.U.S.T. Fund for America (Tomorrow's Retirement for the U.S. Today), or TFA, and was introduced in 2018.

Instead of trying to raise all incomes to the median as RISE does, TFA proposes to give all next-gen babies a retirement income equal to the average income provided by Social Security at age 66 ("Full Retirement Age" as defined by the Social Security Administration).

Thus, TFA's goal is to double the average income Americans get at retirement. This requires a one-time funding of $7,500, which is $1,700 more than the amount needed by RISE. Despite that, TFA provides a lower benefit for most Americans than RISE. The reason: 71% of babies are born into households that earn more than the median income. Hence, it requires more funding to provide these babies with the same benefit as all other babies.

In short, TFA provides equal benefits to all, while RISE provides more benefits to those who need it more and less to those who need it less. Which program is better? You decide.

You can view the proposal for the T.R.U.S.T. Fund for America at WeCanRise.com.

Frequently Asked Questions

5. Can RISE be used to pay for college or buy a home?

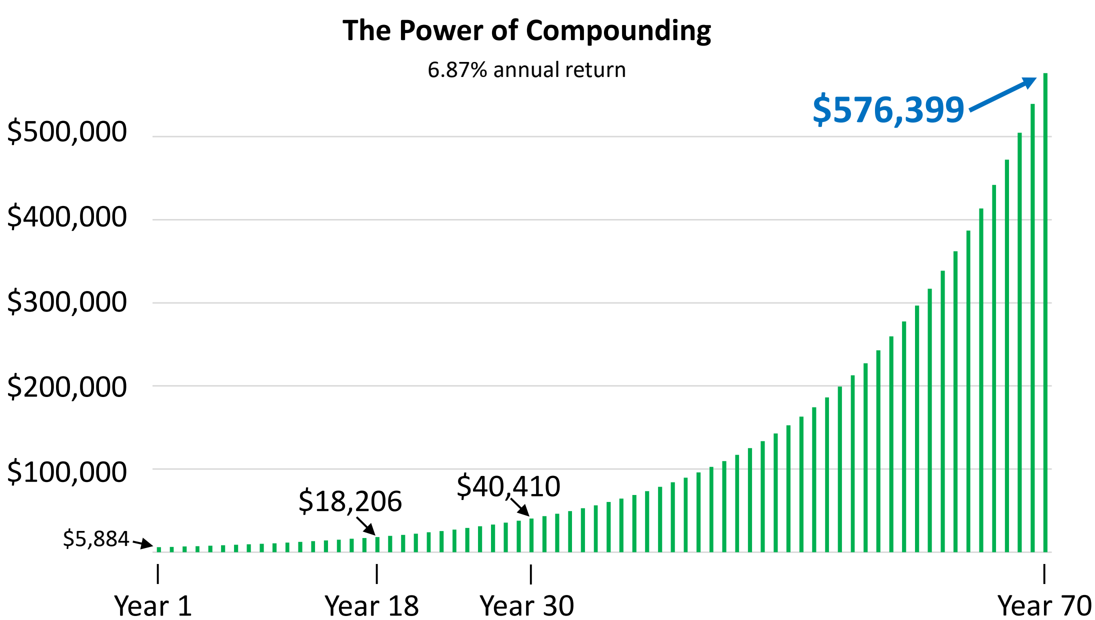
College, homeownership and retirement are perhaps the three most common – and most challenging – financial goals most American families face. This paper has offered a solution for retirement security; let's briefly explain why it does not attempt to resolve the college or homeownership challenges.

The reason is simple arithmetic. RISE cannot provide enough money to pay for college at age 18 or a house at, say, age 30. Furthermore, any withdrawals made for those expenses will severely erode the program's ability to serve its real purpose: to provide retirement security for all Americans.

Remember that RISE projects a 7.27% annual return (minus 0.4% for expenses) on a one-time funding of $5,508, on average, for all babies born in America. After 18 years, the program would be worth, per baby, only $17,043 – not enough to cover the cost of even a single semester of projected future tuition rates at a public college.

It's little better for home buyers. After 30 years, RISE would accumulate $40,410 per baby. That's not enough to pay the $55,557 bill for the down payment and closing costs, as the median home price will be $653,845, assuming a 4.19% annual increase (based on the average annual increase in home prices from 1967-2019, according to the Bureau of Labor Statistics.[7])

As the chart below shows, substantial amounts of time are required to unleash the power of compounding.



Frequently Asked Questions

The power of truly long-term investing is hard to overstate. Only once before has anyone ever applied this principle to its full potential. Read "Benjamin Franklin's Will" at WeCanRise.com.

Therefore, instead of using RISE to solve college and home ownership affordability problems, separate solutions should be considered.

It is worth noting, however, that RISE can dramatically reduce Americans' financial stress. Knowing that future retirement is secure could produce significant peace of mind. And money that would otherwise be earmarked for retirement savings could instead be allocated to other household expenses.

Thanks to RISE, quality of life could be improved for millions of Americans – and not just during retirement.

6. What about immigrants?

RISE is designed to provide funding for babies at birth. If Congress chooses, the program could provide funds for people who legally immigrate to the U.S., if their benefit calculation is based on their age upon immigration. (The older immigrants are when entering the U.S., the less they will each receive at age 70.) Benefits could also be restricted to immigrants who attain U.S. citizenship, with their benefit based either on their date of immigration or their date of citizenship.

Because RISE provides benefits starting at age 70 and RISE bonds return principal and interest to investors after 20 years, Congress might consider excluding from the program those immigrants who enter the U.S. (or become citizens) at age 50 or older.

7. What if the assumptions used by RISE fail to materialize?

The assumptions used by the program are shown in the RISE paper, which you can access at WeCanRise.com. If expenses, revenues or investment returns differ from assumptions, the babies will receive more or less income in retirement than projected. The Commission operating the program can make adjustments to the assumptions annually as needed.

It is likely that results will vary both from the assumptions and from year to year. This means the experience of one birth year will differ from another. To resolve this, Congress could choose to give the Commission authority to use a surplus from one year's program to compensate for a deficit incurred by another. Alternatively, Congress could choose to provide funding to eliminate a shortfall experienced by any birth year. Absent these actions, babies from each birth year will simply be limited to receiving only as much income as the program can provide.

Frequently Asked Questions

8. Is RISE meant to replace Social Security?

No. The programs are fundamentally different.

Social Security is a mandatory government program. Most workers are required to pay Social Security taxes, and the program gives that money to current retirees. Taxes from future generations of workers will be used to provide retirement benefits to current workers. The program has operated this way since its inception in 1935.

Whenever tax revenues exceed the amount needed to provide current benefits, the excess is placed into the Social Security Trust Fund. The fund is invested exclusively in debt obligations of the United States Treasury – the safest investment in the world. This is appropriate to assure that the program can provide future retirees with the benefits they have been promised.

Social Security and RISE should be viewed as companion programs, with neither one impacting the other.

RISE is different. It is not a mandatory government program, and therefore is not funded by taxpayers. Instead, savers and investors will voluntarily choose to purchase RISE EE Bonds, and the money collected from the sale of these bonds will be invested by the independent Commission of the federal government into the broad financial markets, not exclusively into U.S. Treasury obligations.

Although it is reasonable to assume that returns over 100 years will significantly outpace inflation, enabling the program to achieve its goals, there is no guarantee. Nor is there an explicit or implied promise from Congress to provide a backstop if the program is unable to provide a certain income to babies born in any particular year.

Therefore, Social Security and RISE should be viewed as companion programs, with neither one impacting the other.

9. Is RISE meant to replace 401(k) plans?

Most workers will likely continue to favor workplace savings plans. Only 17% of workers will receive retirement income from RISE that exceeds what they would get from their 401(k), based on the assumptions used by the RISE proposal – meaning a great many workers likely would want access to a workplace retirement plan.

Still, there might be some workers who might choose to reduce or skip participation in their workplace plan. By doing so, they might increase their take-home pay by 8% or more, depending on their tax bracket – improving their ability to pay for other household expenses, or to save for other goals (such as college or buying a home).

If future-gen workers are less interested in saving for retirement via the workplace, employers could use the op-

> **Employers strive to deliver the compensation and benefits employees need and want, and that will never change**

portunity to introduce new employee benefits or enhance existing ones. This would improve their ability to attract and retain employees, while helping to reduce financial stress within their workforce.

Given that babies in the program's first year will not enter the workforce for 20 years or more, this issue will not need to be addressed for two or three decades. It will prove to be self-correcting, because employers are always competitive in the marketplace: They have always focused on delivering the compensation and benefits packages that employees need and want, and that will never change.

10. How does RISE compare to the "Baby Bonds" proposal?

There are a variety of proposals under the moniker "baby bonds." All are similar. Perhaps the most prominent is the American Opportunity Accounts Act[8], which would give each child $1,000 at birth, plus up to $2,000 per year until the child reaches age 18. (The amounts provided are based on the child's household income; the lower the income, the more they receive annually.)

The funds would be invested in a "federally insured account managed by the Treasury Department" that earn "roughly 3% interest" – although how that return is generated is not explained. (Given that the 30-year Treasury Bond rate is approximately 0.78% as of October 2020, it appears that Congress would have to subsidize the return provided to these accounts.)

Children born into the lowest-income households would receive almost $50,000 by age 18, at which time they could use the funds to buy a home, pay for college or start a business.

Like other ideas that are similar, this proposal is laudable but not realistic. It is thus unlikely to win approval from Congress – or to deliver on its promise even if signed into law. The reasons these proposals fail include:

- Huge cost to taxpayers. AOAA would cost about $60 billion in per year and recommends raising estate taxes and taxing inherited capital gains.
- Too low a return. At an annual return of just 3%, the baby bonds do not generate a sufficient return, net of inflation, to allow the program to succeed. The account balances will be insufficient to pay for college, buy a home or start a business.
- Too short a period for compounding to work. As described earlier, tapping into the accounts just 18 years after birth negates the power of compounding. Coupled with the low 3% annual return, the program cannot achieve its goals. This is exacerbated by the fact that the baby bonds will not compound for 18 years; because the funds are provided annually, only $1,000 will compound for 18 years; the final $2,000 will

compound for only one year. The half-life of compounding for the entire funding is less than 9 years.

- Unrealistic goals. Hardly any 18-year-olds are ready to buy a home. And fewer would want to start a business or be ready to do so.
- Exposure to program manipulation. The proposal restricts the use of funds to education, housing and business start-up. This makes the program very easy to be manipulated. An 18-year-old could use the funds to make a down payment on a house, for example – and immediately sell the property to gain complete access to and control of the funds. Or a business could be "started" with the money used to pay salaries of friends and family; when the money is gone, the start-up "goes out of business." Both of these manipulations could be facilitated by third-parties who are virtually certain to emerge, offering their expertise to help the children exploit these and other loopholes in the program – for a fee, of course. Program manipulation could be rampant.

The RISE program, by contrast, incurs none of these problems. The chart below compares AOAA and RISE.

	AOAA	RISE
Taxpayer Cost	$60 billion per year	None
Projected Annual Return	About 3%	6.87% (net of fees)
Compounding Period	Half-life of less than 9 years	Half-life of 85 years
Use of Proceeds	Limited to college expenses, home purchase and business start-up	No restriction when annual income begins at age 70

It was noted earlier that RISE is not ideally suited for resolving the challenges of providing Americans with college degrees or homeownership. By targeting problems RISE does not address, ideas such as AOAA are worthy of consideration by policymakers.

11. Where did the idea for RISE come from?

In 1997, the author of this proposal, who hosts a national, award-winning radio show on personal finance, took a call from a listener, "John from Manassas." John said his wife just gave birth and John wanted to know how to save for his son's future.

The host assumed John meant saving for college, but John interrupted, saying he was interested in saving for the baby's retirement.

The host was surprised. "No parent saves for a baby's retirement," he declared. "It's difficult enough to save for college!" But he agreed that John had a point. So, while still on the air, the host used his calculator to see what the future value might be of $5,000 if invested for 18 years. At a 10% annual return (the average annual return of the S&P 500 Stock Index since 1926[9]), $5,000 would grow to about $28,000. "That's not enough to pay for college today, let alone 18 years from now," the host lamented.

But then the host set the timeframe to 65 years. The result, he announced: $5,000 turns into nearly $2.5 million. Immediately, the host saw John's genius. The power of compounding over six decades accomplishes something that shorter periods cannot achieve.

But the host also realized two obstacles were in John's way. The first, he explained to his caller, is taxes. Income taxes would dramatically reduce the future value of the account, and estate or gift taxes could be incurred depending on how the account was structured.

The second problem is human nature: an account named for a newborn would have to be given to the child upon legal age – 18 or 21, depending on the state where the child lives. As the host joked with John, "At that point, the only question is, 'What color is the Corvette?'" Indeed, throughout their adulthood, the babies would find many tempting reasons to raid the account – making it highly unlikely that any of the money provided at birth would remain untouched until retirement.

Still the host knew John was on to something. So he promised John he'd work on the idea. "We need a vehicle that lets the money grow on a tax-deferred basis while preventing access until the child reaches retirement," the host said.

Two years (and lots of lawyers) later, the host introduced the solution: a variation of a Crummey Trust, with contributed funds invested into a variable annuity. The host was awarded two patents (6,064,986 issued May 16, 2000, and 6,085,174 issued July 4, 2000) for these innovations, and today more than 4,000 children are beneficiaries of these unique trusts. If all goes as planned, each of these children will retire with millions of dollars – thanks to one-time gifts of $5,000 from their parents or grandparents.

But few Americans – and certainly not those living in lower-income households – have the financial means to give $5,000 to each of their children or grandchildren. This is why the inventor reimagined his program, first as TFA as noted above, and now as RISE.

FAQs Endnotes and Sources

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