Ric Edelman Proposes Retirement Savings Fix For Future Generations

By Jacqueline Sergeant | Published February 16, 2021

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Unable to save for retirement, millions of Americans rely primarily on Social Security to fund their retirement expenses, which Ric Edelman said was designed to merely supplement a worker's retirement income.

Edelman, the co-founder of Edelman Financial Engines, has put forth a proposal he believes is the solution to the retirement shortfall.

RISE (Retirement Income Security for Everyone) is a savings solution that would provide all future generations of Americans a new source of retirement income starting at age 70, Edelman explained during a recent radio program. It would place all participants at the median of U.S. personal income, which according to the Census Bureau was $38,761 last year.

Edelman proposes that, starting next year, the Treasury Department would issue annual RISE savings bonds, similar to war bonds during World War II, to newborns. The bonds would total about $23.4 billion, or $5,884 for each of the estimated 4 million children born each year. This, Edelman noted, represents 0.1% of the value of the federal government's marketable securities.

The money would be managed by an entity established by Congress and like other savings bonds it would be eligible for redemption in 20 years, he said. The redemption and all the program costs would be funded by the program itself.

"So, the program is completely self-funded. No cost to the government or the taxpayers," Edelman said.

Under the proposal each baby would be assigned at birth to a Personal Income Bands (PIB) based on their family's average household income based on Census data. At age 70, they would each begin receiving inflation-adjusted monthly income based on their PIB.

Edelman said that the program is designed to provide this income to age 100, so if a baby dies prior to age 100, that income would fund those who live beyond age 100.

Those born into the lowest household income group would receive more than $35,000 per year (in 2020 dollars), said Edelman, while those born into the wealthiest of families would receive more than $1,000 annually. "Everyone would benefit from the program. No more American retirees living in poverty," he said.

He assumes the bonds will have an average annual return of 7.27%, which is the average projection used by public pensions. The bonds would have an annual fee of 0.4%.

"In my proposal, the bonds issued by the Treasury Dept will earn the same rate as EE Savings Bonds," Edelman told Financial Advisor by email. "The money will be invested – and that return is 7.27%. The EE bonds themselves won't be earning the 7.27%. (It's the difference in those returns that allows the RISE accounts to rise, providing income in retirement)."

Americans predominantly save for retirement through the workplace and more than half participate in an employer-sponsored pension or retirement plan. Additionally, 179 million workers pay into the Social Security system, Edelman said. The typical worker contributes the equivalent of 23.53% of their income to retirement every year – 13.5% in 401(k) contributions (including employer matching contributions) plus 10.03% in Social Security retirement taxes.

The typical worker who enters the workforce at age 20, saves in a 401(k) until age 70 and pays into Social Security will get $23,000 in retirement (in present dollars) or $105,048 in future dollars. And should that worker live to be 100, the total retirement income from both sources is about $4.5 million. To get that income, that worker paid more than $470,000 in career payroll contributions and taxes, Edelman noted.

In comparison, RISE would provide more than $120,000 to workers at age 70, or 15% more. The total median lifetime retirement income from RISE would exceed $11.4 million, or 2.5 times more than that provided by typical 401(k) plans plus Social Security. And RISE accomplishes that by a one-time funding of $5,884, Edelman said.

“RISE is able to do this simple compound growth by setting the money up at birth and giving it 70 years of compound growth opportunity, something else no one has ever tried to do,” he said.