Retirement Income Security for Everyone

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

Ric Edelman
Distinguished Lecturer
William G. Rohrer College of Business, Rowan University

All Americans desire a financially secure retirement. But few Americans achieve it. As a result, millions of American retirees are forced to rely primarily on Social Security.

Indeed, half of retiree households get more than half their income from that government program, and one in four gets 90% or more of their income from it.[1] Yet the median monthly Social Security retirement benefit is just $1,514.[2] This low amount is not due to a flaw in the Social Security system; the program was designed to merely supplement a worker's retirement income – not serve as the primary, let alone sole, source of income in retirement.

There are five major reasons why millions of retirees are so dependent on Social Security. First, millions of American families don't earn enough money to save, and thus aren't able to accumulate the wealth needed to support themselves in retirement. Although median U.S. household income is up 14% since 1990, health-care costs since then are up 51%, housing prices are up 290%, college costs are up 311%[3] and food prices are up 107%.[4] Because the costs of living have risen so much faster than incomes, four in 10 Americans don't have the cash to pay an unexpected expense of $400.[5]

As a result, millions of Americans don't save for retirement even when employers offer them free money as an inducement to do so: more than half (56%) of those earning less than $50,000 don't participate in their workplace retirement plan,[6] and 26% of all U.S. households have no retirement savings whatsoever.[7]

Second, nearly a third (32%) of private sector employees work for employers that don't offer a retirement plan.[8] This effectively prevents people from saving for retirement, because people with access to workplace retirement plans are 12 times more likely to save for retirement than those who don't have access.[9]

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But even those who have managed to save for retirement haven't saved very much: the average 401(k) balance for Americans nearing retirement is so low ($357,000)[10] it can generate only about $1,000 per month, based on withdrawal rates commonly recommended by financial planners – even though the average preretirement income for such households is $5,625,[11] or 5.6 times more.

Third, we don't let Americans save for retirement throughout their entire lives. Although life expectancy in the United States for those age 65 is now 86.6 years,[12] Americans can't participate in pension plans or contribute to 401(k) plans or Social Security unless and until they get a paycheck – literally wasting two decades of savings opportunity.

Currently, we don't let Americans save for retirement throughout their entire lives

And even though most people begin full-time employment in their 20s – ostensibly giving them the opportunity to start saving for retirement at that age – the majority don't actually begin participating in workplace retirement plans until age 37.[13] Thus, millions of Americans fail to accumulate retirement savings during nearly half their lives. The result is a massive lost opportunity to create wealth.

The impact of this lost time cannot be overstated. Consider a monthly savings rate of $100 over 20 years. The $24,000 total investment, assuming a 7% rate of return, would grow to $52,000. Extending the time period to 40 years doubles the amount invested (to $48,000) but more than quintuples the wealth – to $262,000. Increase the time period to 60 years, and the investment is only 3x larger but is now worth 11x more, or $1.1 million. Increase the time period to 80 years, and the investment is 4x larger but worth an astonishing 86x more ($4.5 million) than saving for just 20 years. This is the famous "power of compounding."

Although compounding's value is commonly known, access to it is denied – solely because Americans cannot participate in retirement plans beginning at birth.

Saving Longer Produces Exponential Increases in Wealth

Thanks to the Power of Compounding

If you save $100 per month for:	Your total contributions will be:	At 7% per year, your account will grow to:
20 years	$24,000	$ 52,093
40 years	$48,000	$ 262,481
60 years	$72,000	$1,112,186
80 years	$96,000	$4,543,922

Fourth, children born into low-income households are likely to remain low-income their entire lives – making them highly likely to rely excessively on Social Security in retirement. Although median household incomes have risen 49% since 1970, according to the Pew Research Center[14], gains have not been uniformly enjoyed: Incomes for the top 5% of households rose 115% while incomes fell 15% for the bottom 20% of households.

This disparity in U.S. household income is well known. Less well known is the fact that income inequity is persistent, both throughout life and across generations. As a result, those born into low-income households are likely to stay low-income. (The reasons for this persistency are beyond the scope of this paper but amply documented by numerous academic studies.)

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As a result, says Pew, upper-income families by 2016 had 75x more wealth than the lowest-income families – up from 28x in 1983. Indeed, the wealth gap more than doubled from 1989 to 2016.

Pew's data show that the broadening of the wealth gap is causing the middle class to disappear: In 1971, 62% of U.S. households were in the middle class. By 2019, only 43% were in middle-class households. This has caused the ranks of the upper income households to swell, from 29% in 1971 to 48% in 2019. But this upward mobility wasn't the experience of those in lower-income households: Throughout the past 50 years, the lower-income tier has remained steady. Indeed, 10% of U.S. households were low-income in 1970 and 9% still were in 2018.

It's time to introduce a new approach to retirement savings...

Fifth, half of all U.S. workers have taken actions detrimental to their future retirement security, according to a 2020 study by Edelman Financial Engines.[15] One in three workers have accessed money from their retirement accounts early and 60% say they will do it again. Another 16% are considering taking their first loan or hardship withdrawal.

Clearly, the ability to access retirement savings prior to retirement proves too tempting for millions of U.S. workers. Money spent prior to retirement is money not available to provide income in retirement – a huge weakness in the rules controlling today's workplace retirement plans and IRAs.

It's time, therefore, to introduce a new approach to retirement savings, one that doesn't penalize hard-working Americans who are struggling with the costs of living, doesn't make one's ability to save for retirement dependent on where (or whether) they get a paycheck, doesn't force them to miss millions of dollars in wealth accumulation by forgoing decades of compounding, doesn't perpetuate their poverty merely because of their household income at birth, and prevents workers from acting against their own best interests by letting them access retirement savings prior to retirement.

What's needed is a savings solution that would provide all future generations of Americans a new source of retirement income, starting when they attain age 70, sufficient to place them at the median of U.S. personal income ($38,761 in 2020, according to the Census Bureau[16]) – essentially lifting all Americans into the middle class in retirement. Those born into the lowest Household Income Group would receive more than $35,000 per year (in 2020 dollars), 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. No more low-income retiree households.

And the program would be completely self-funding. No cost to the government or taxpayers.

The program is called Retirement Income Security for Everyone (RISE), and here's how it works. Starting next year, and every year thereafter, the U.S. Treasury Department would issue approximately $23.4 billion in RISE Savings Bonds, or $5,884 for each of the approximately 4 million children born each year.[17] This figure represents 0.1% of the value of the federal government's marketable securities.[18]

The money would be managed by an entity established by Congress. This entity could take any of several forms, such as:

• *A Commission* operating independently from the federal government, similar to the Food and Drug Administration or the Securities and Exchange Commission;

• *A Government-Sponsored Enterprise,* similar to Fannie Mae or Freddie Mac (the Federal Na-

...An innovative savings solution that would give all future generations a new source of retirement income

tional Mortgage Association or Federal Home Loan Mortgage Corporation);
• *A private organization formed as or operating similarly to a pension fund or endowment,* based on such models as CalPERS, the California Public Employees' Retirement System, the largest public pension fund in the United States, the Harvard Management Company, which manages Harvard University's endowment, the largest university endowment in the United States, or the Federal Retirement Thrift Investment Board, manager of the federal Thrift Savings Plan, the retirement savings and investment plan for federal employees and members of the uniformed services; or
• *A private enterprise with experience and expertise managing assets* as an institution on behalf of beneficiaries. The bulk of the nation's assets are managed by such organizations, and one or more could be hired by the government to manage RISE assets.

The RISE Bonds would be eligible for redemption in 20 years, like other Savings Bonds. Because redemptions (as well as the program's administrative and operational expenses) would be funded by the program itself, there would be no cost to the government or taxpayers.

Based on U.S. Census data, each baby would be assigned at birth to one of six Personal Income Bands, shown in Appendix A, based on their family's average Household Income over the preceding five years. Upon age 70, they would each begin receiving monthly income (inflation-adjusted) based on their PIB. The program is designed to provide this income to age 100, well beyond the current life expectancy of Americans. If a baby dies prior to age 100, income they'd have received in retirement would fund those who live beyond age 100.

These figures are based on:

- 7.27% average annual return, which is the average projected return of the nation's public pension plans[19]
- 0.4% annual administrative expenses, the cost to operate OASDI by the Social Security Administration[20]
- 2.17% annual inflation, based on 2000-2019 data from the Bureau of Labor Statistics[21]

Comparing RISE to Today's Approach to Retirement Income

Currently, Americans predominantly save for retirement via the workplace. More than half of all U.S. workers (56%) participate in an employer-sponsored pension or retirement plan[22] and 179 million workers pay into the Social Security system.[23]

To save for retirement, American workers typically forgo 23.53% of their income every year – 13.5% in 401(k) contributions (including employer matching contributions)[24] plus 10.03% in Social Security retirement taxes.[25]

And what do workers get in exchange for their career-lifetime of savings? Let's look at the typical worker who:

- enters the workforce in 2020 at age 20, earns $18,026 (the median income for that age[26]) and receives annual salary increases of 3.31%, the average from 2000-2019, according to the Bureau of Labor Statistics;[27]
- joins the employer's 401(k) plan at age 37 and has 13.5% of pay contributed to it annually until retirement at age 70;
- receives annual 401(k) withdrawals from age 70 to age 100, increased annually for 2.17% inflation; and
- receives Social Security benefits based on the employee's work history, receiving a 2.15% annual Cost Of Living Adjustment, based on 2000-2019 COLA data from the Social Security Administration.[28]

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At age 70, this worker thus receives an income of $105,048 (in future dollars). Of this total, $52,420 is provided by the 401(k) plan and $52,628 is provided by Social Security. The worker's total retirement income to age 100 from both sources is about $4.5 million. This worker pays more than $470,000 in career payroll contributions and taxes to receive that income.

By contrast, RISE would provide more than $120,000 (median) to workers at age 70 – or 15% more. Total median lifetime retirement income from RISE would exceed $11.4 million, or 2.5x more than that provided by typical 401(k) plans plus Social Security. And instead of investing more than half a million dollars to produce this income, RISE makes it happen with a single $5,884 Savings Bond.

Adding RISE to Current Retirement Savings Efforts

	401(k) + Social Security	RISE	401(k) + Social Security + RISE
Total Investment Per Typical Worker	$ 471,624	$ 5,884	$ 477,508
Median Income at Age 70			
in future dollars	$ 105,048	$ 120,073	$ 225,121
in present dollars	$ 23,445	$ 26,810	$ 50,265
Median Lifetime Retirement Income	$4,567,607	$11,440,323	$16,007,930

RISE is an innovative, permanent and completely self-funding way to ensure that all future generations of Americans can enjoy a financially secure retirement.

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About the Author of RISE

Ric Edelman is one of the most influential people in the financial services field, according to *Investment Advisor, RIABiz* and *InvestmentNews.* He was ranked 3 times as the nation's **#1 Independent Financial Advisor** by *Barron's,* is in the *Research* and *Barron's* Advisor Halls of Fame, and received IARFC's **Lifetime Achievement Award**. Ric created the first exponential technologies ETF and holds **two patents**.

He is Distinguished Lecturer, William G. Rohrer College of Business, Rowan University and a member of the advisory boards of Stanford University's Center on Longevity and the Milken Institute Center for the Future of Aging. Ric taught at Georgetown University for 9 years and has lectured at Stanford, GWU, Pepperdine, and Roger Williams University.

Ric founded the **Funding Our Future Coalition**; its 50+ academic, non-profit, corporate and think-tank members strive to improve America's retirement readiness. He and his wife Jean founded **Edelman Financial Engines**. Ranked #1 by *Barron's* and *Consumer Reports*, it's the nation's largest independent advisory firm, managing $230 billion for 1.2 million households and providing 401(k) advice to 130 of the *Fortune 500*. Ric also founded the **Digital Assets Council of Financial Professionals**, offering the Certificate in Blockchain and Digital Assets.

Championing financial literacy, Ric is ranked among the **"100 Most Important Radio Talk Show Hosts"** by *TALKERS* for his show of nearly 30 years, airing on 86 radio stations and reaching 1 million people weekly. He also hosts TV specials for PBS, and is a **#1 *New York Times* bestselling author** of 10 books on personal finance, twice receiving the "book of the year" award from the Institute for Financial Literacy.

Ric and his wife Jean are benefactors of the Edelman Center for Nursing, the NVTRP Edelman Indoor Arena, and Rowan University's Edelman Planetarium and Edelman Fossil Park. **Rowan University's Ric Edelman College of Communication & Creative Arts** is named in his honor.

Endnotes and Sources

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27. https://www.bls.gov/data/ https://www.multpl.com/united-states-population/table/by-year
28. https://www.ssa.gov/oact/cola/colaseries.html

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List of Assumptions Underlying the RISE Proposal

Current Number of U.S. Households **128,451,000**
https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-hinc/hinc-01.html

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Average Number of People Per Household **2.52**
https://www.census.gov/data/tables/time-series/demo/families/households.html

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Median Personal Income **$38,761**
https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-hinc/hinc-01.html
and
https://dqydj.com/average-median-top-individual-income-percentiles/#Selected_United_States_Individual_Income_Percentiles_for_2020_and_2019

Median Income of a 20-Year-Old **$18,069**
https://dqydj.com/income-percentile-by-age-calculator/

Annual EE Bond Interest Rate **0.10%**
https://www.treasurydirect.gov/news/pressroom/currentibondratespr.htm

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Annual Inflation Rate 2000-2019 **2.17%**
https://www.bls.gov/eag/eag.us.htm

Annual Investment Rate of Return **7.27%**
http://www.nasra.org/files/Issue%20Briefs/NASRAInvReturnAssumptBrief.pdf

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Annual Administrative Expenses **0.4%**
https://www.ssa.gov/oact/STATS/admin.html

Median 401(k) Annual Contribution Rate (Combined Employee and Employer) **13.5%**
https://sponsor.fidelity.com/bin-public/06_PSW_Website/documents/Building_Financial_Futures.pdf

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Median Monthly Social Security Benefit 2020 **$1,514**
https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf

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Average Annual Social Security Cost Of Living Adjustment 2000-2019 **2.15%**
https://www.ssa.gov/oact/cola/colaseries.html

Average Annual Social Security Retirement Tax (Combined Employee and Employer) **10.03%**
https://www.ssa.gov/news/press/factsheets/HowAreSocialSecurity.htm#:~:text=The%20remainder%20was%20provided%20by,up%20to%20a%20certain%20amount.

Annual Increase in Employee Pay 2000-2019 **3.31%**
https://www.bls.gov/data/
and
https://www.multpl.com/united-states-population/table/by-year

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Average Age Workers Start Contributing to 401(k) **37**
https://institutional.vanguard.com/iam/pdf/HAS2019.pdf

Number of Babies Born in U.S. by Household Income

Household Income	# Births
Under $10,000	226,704
$10,000-$14,999	113,920
$15,000-$24,999	299,438
$25,000-$34,999	334,296
$35,000-$49,999	494,110
$50,000-$74,999	705,117
$75,000+	1,796,377
total	3,969,962

https://www.census.gov/data/tables/2018/demo/fertility/women-fertility.html#par_reference_1

Median Household Income **$68,703**
https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-hinc/hinc-01.html
and
https://dqydj.com/average-median-top-household-income-percentiles/

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Median Household Income By Income Group

Household Income	Median
Under $10,000	$ 4,887
$10,000-$14,999	$ 12,945
$15,000-$24,999	$ 20,336
$25,000-$34,999	$ 30,009
$35,000-$49,999	$ 42,489
$50,000-$74,999	$ 62,341
$75,000-$99,999	$159,514

https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-hinc/hinc-01.html

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Median Individual Income By Income Group

Individual Income	Median
Under $10,000	$ 3,475
$10,000-$14,999	$ 11,951
$15,000-$24,999	$ 19,546
$25,000-$34,999	$ 28,847
$35,000-$39,441	$ 36,743
$40,000+	$144,333

https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-hinc/hinc-01.html
and
https://dqydj.com/average-median-top-household-income-percentiles/

Age RISE Income Begins 70

Age RISE Income Ends 100

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Appendix A
RISE Personal Income Bands

Babies Born into Households with These Incomes		Would Be Assigned to This Personal Income Band
From	**To**	**Band**
$ -0-	$9,999	PIB Orange
$10,000	$14,999	PIB Yellow
$15,000	$24,999	PIB Blue
$25,000	$34,999	PIB Green
$35,000	$39,999	PIB Indigo
$40,000+		PIB Violet