THE T.R.U.S.T. FUND FOR AMERICA

A Proposal to Provide Guaranteed Lifetime Income to Every Future Generation

Simple, Easy and Affordable

by Ric Edelman

Edelman Financial Engines™

Every American generation has the same financial goal: to enjoy a financially secure retirement. But few Americans achieve it. Instead, despite decades of hard work and doing their best to raise and support their families, millions of American retirees find themselves dependent on Social Security.

Indeed, half of retiree households get more than half their income from that government program, and one in four retiree households get 90 percent or more of their income from it.[1] Yet the average monthly Social Security retirement benefit is just $1,372.[2] That's below the 2019 federal poverty line for a 2-member household.[3] This isn't the fault of, or a flaw in, the Social Security system. When the program was launched in 1935, it was designed to supplement a worker's retirement income – not serve as the primary, let alone sole, source of income in retirement.

There are three major reasons why so many retirees find themselves so dependent on Social Security. **First, millions of American families don't earn enough money to save for retirement.** Although median U.S. household income is $61,372, up 14 percent since 1990, health-care costs since then are up 51 percent, housing prices are up 290 percent and college costs are up 311 percent.[4] Because the costs of living have risen so much faster than incomes, four in 10 Americans don't even 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 percent) of those earning less than $50,000 don't participate in their workplace retirement plan,[6] and 26 percent of all U.S. households have no retirement savings whatsoever.[7]

Second, nearly a third (32 percent) of private-sector employees work for employers that don't offer a retirement plan.[8] That 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] 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 a thousand dollars per month, based on withdrawal rates commonly recommended by financial planners–even though the average pre-retirement 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 is now 86.6 years,[12] meaning the typical American lives for eight decades, Americans can't participate in pension plans or contribute to 401(k) plans or Social Security unless and until they are employed – literally wasting two decades of savings opportunity. 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 miss out on accumulating retirement savings for as much as 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 percent rate of return, would grow to $52,000. If you extend the time period to 40 years, you double the amount invested (to $48,000) but you more than quintuple the wealth – to $262,000. Increase the time period to 60 years, and your investment is only three times larger but is now worth 11 times more, or $1.1 million. Increase the time period to 80 years, and your investment is four times larger but worth an astonishing 86 times more ($4.5 million) than if you'd saved for just 20 years. This is the famous "power of compounding." Its value is commonly known, but access is denied – solely because we don't let Americans participate in retirement plans starting 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	$ 52,000
40 years	$48,000	$ 262,000
60 years	$72,000	$1,100,000
80 years	$96,000	$4,500,000

It's time, therefore, to introduce a new approach to retirement savings, one that doesn't penalize hardworking American families who are struggling with the costs of living, doesn't make one's ability to save for retirement dependent on where (or whether) they are employed, and doesn't force them to lose millions of dollars in wealth accumulation by forgoing decades of compounding.

A program created under this new approach would provide all future generations of Americans a new source of income, starting when they attain age 66, equal to the inflation-adjusted average Social Security retirement benefit they are already entitled to. This new program would thus virtually double the amount of income received by one in four retirees, and it would represent a 50 percent increase in income for half of all retirees. Best of all, this program would be completely self-funding.

It's called **The T.R.U.S.T. Fund for America** (short for **T**omorrow's **R**etirement for the **U.S. T**oday).

Here's how it works. Starting next year, and every year thereafter, every baby receives $7,500 into an account of their own. The account would be managed in a manner determined by an independent agency of the federal government, similar to the Federal Retirement Thrift Investment Board. (The Thrift Board oversees the federal Thrift Savings Plan, the largest defined contribution retirement plan in the world.)

When each baby reaches age 66, they would begin receiving monthly income from their account, in an amount equal to what is then provided, on average, to Social Security retirement beneficiaries. The T.R.U.S.T. Fund for America would be able to provide this income for each person to age 100, well beyond the 86.6-year average life expectancy of Americans. If a retiree dies prior to age 100, the account's balance would be returned to the U.S. Treasury for distribution to retirees who live longer than age 100. These figures are based on an average annual return of 7.27 percent, which is the average projected return of the nation's public pension plans,[14] and a 1.36 percent annual cost of living adjustment, which has been the average annual increase in Social Security retirement benefits since 2010.[15]

The program would be funded by a new type of EE Savings Bond: "T.R.U.S.T. EE" Bonds. They'd be issued annually by the Treasury Department, in an amount equal to $7,500 for each of the approximately 4 million children born each year.[16] The total amount of T.R.U.S.T. EE Bonds issued would therefore be approximately $29 billion per year. This figure represents a mere 0.3% of the federal government's annual borrowing from the public,[17] and therefore imposes no challenge for the Treasury Department to raise the funds.

In 30 years, like other EE Savings Bonds, the T.R.U.S.T. EE Bonds would mature and become eligible for redemption. And, like other EE bonds, T.R.U.S.T. EE Bonds would be redeemed for twice their face value. Because redemptions would be funded by the program itself, there would be no interest cost to the government or to taxpayers. Thus, the program would be completely self-funding, both initially and on a permanent, on-going basis.

The T.R.U.S.T. Fund for America is an innovative, permanent and completely self-funding way to help all Americans enjoy a financially secure retirement. It should be implemented by Congress immediately, so all future generations of Americans can grow up with far less financial stress, and with far greater confidence that their financial future will be more secure, bringing them closer to achieving The American Dream.

ABOUT RIC EDELMAN:

Ric Edelman is one of the most influential people in the financial planning and investment management profession, according to three leading trade publications: *Investment Advisor*,[18] *RIABiz*[19] and *InvestmentNews*[20]. He was ranked three times as the nation's #1 Independent Financial Advisor by *Barron's*[21] and among the Top 10 Wealth Advisors by *Forbes*.[22] He was inducted into *Research* magazine's Financial Advisor Hall of Fame in 2004[23] and into *Barron's* Hall of Fame in 2019.[24] In 2017, Ric received the IARFC's Lifetime Achievement Award.[25]

Ric is a Distinguished Lecturer at Rowan University, award-winning host of the longest-running radio show on personal finance in the country, producer of award-winning specials for Public Television, and a #1 *New York Times* bestselling author of 10 books on personal finance.

For more information, visit **www.edelmanfinancialengines.com**.

ABOUT EDELMAN FINANCIAL ENGINES:

Edelman Financial Engines is a highly acclaimed financial planning and investment management firm, with 200 offices coast-to-coast, serving 1.2 million clients and managing more than $212 billion in client assets.[26] In 2019 it was ranked the largest independent advisory firm in the nation by *InvestmentNews*[27] and #1 for quality by both *Barron's*[28] and *Washington FAMILY*.[29] And see the firm's ranking by *Consumer Reports*.

At Edelman Financial Engines, we believe all Americans – not just the wealthy – deserve personal, comprehensive financial planning and investment advice. Since our founding in 1986, we have been committed to serving the best interests of each and every client. Our unique approach combines our advanced methodology and proprietary technology with the individual attention of a dedicated personal financial planner. The powerful combination of high-tech and high-touch allows Edelman Financial Engines to deliver the personal finance advice and services that everyone wants, needs and deserves.

For more information, visit **www.edelmanfinancialengines.com**.

[1] http://cepr.net/blogs/cepr-blog/the-social-security-share-of-retirement-income

[2] https://www.usatoday.com/story/money/personalfinance/retirement/2017/12/04/this-is-the-maximum-social-security-retirement-benefit-payable-in-2018/108185942

[3] https://aspe.hhs.gov/2019-poverty-guidelines

[4] https://www.wsj.com/articles/families-go-deep-in-debt-to-stay-in-the-middle-class-11564673734?emailToken=aa2736a13e927b4bd85b58acfb390b07S4nzGep3cX8ePO+PYbr+rHyd8vcUo7Ql6gM9acGmdhgWF5IFRTxPGIrN9a0BYVb0CxnVkrmi8Y5Ao31v25tRn7MDOrp6uR02nWr44R/LaHUTMgcGRBEyiwF+c7f2h89F&reflink=article_email_share

[5] https://www.federalreserve.gov/publications/2019-economic-well-being-of-us-households-in-2018-executive-summary.htm

[6] https://institutional.vanguard.com/iam/pdf/HAS2019.pdf

[7] https://www.gobankingrates.com/saving-money/savings-advice/58-of-americans-have-less-than-1000-in-savings/

[8] https://www.bls.gov/opub/ted/2018/51-percent-of-private-industry-workers-had-access-to-only-defined-contribution-retirement-plans-march-2018.htm

[9] https://www.usaretirement.org/millions-american-workers-still-lack-access-401k

[10] https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/press-release/quarterly-retirement-trends-050919.pdf

[11] https://www.aarp.org/money/credit-loans-debt/info-2018/average-household-income-fd.html

[12] https://www.soa.org/resources/announcements/press-releases/2018/2018-mortality-improvement/

[13] https://institutional.vanguard.com/iam/pdf/HAS2019.pdf

[14] http://www.nasra.org/files/Issue%20Briefs/NASRAInvReturnAssumptBrief.pdf

[15] https://www.ssa.gov/history/briefhistory3.html#colas

[16] https://www.cdc.gov/nchs/data/nvsr/nvsr67/nvsr67_08-508.pdf

[17] https://www.gao.gov/assets/700/690105.pdf

[18] The *Investment Advisor* magazine listing of the Investment Advisor 25 is based on readers' opinions and highlights those who are ahead of the pack with their insights, innovation and disruption. Advisors and other industry participants cast about 12,000 total votes for leaders in the following six categories: RIA/Advisory; Independent Broker-Dealers; Custody & Clearing; Portfolio, Investing & the Markets; Politics/Regulation/Compliance; and Fintech/IA/AI. Investor experience/returns were not considered as part of this ranking.

[19] The *RIABiz* listing of the 10 most influential figures in the Registered Investment Advisor industry is in recognition of notable, driven and influential executives who are advancing their firms and are considered influential in the RIA business. Investor experience/returns were not considered as part of this ranking.

[20] Based on the opinions of the editors of *InvestmentNews* using the following definition as a guidepost: Those who have conceived new ideas and tools that have propelled the industry forward. Investor experience/returns were not considered.

[21] According to *Barron's*, "The formula [used] to rank advisors has three major components: assets managed, revenue produced and quality of the advisor's practice. Investment returns are not a component of the rankings because an advisor's returns are dictated largely by each client's risk tolerance. The quality-of-practice component includes an evaluation of each advisor's regulatory record." The rankings are based on the universe of applications submitted to *Barron's*. The selection process begins with a nomination and application provided to *Barron's*. Principals of Edelman Financial Services, LLC self-nominated the firm and submitted quantitative and qualitative information to *Barron's* as requested. *Barron's* reviewed and considered this information, which resulted in the rankings on Aug. 27, 2012/Aug. 28, 2010/Aug. 31, 2009.

[22] *Forbes* rankings are the opinion of SHOOK Research and are based on advisor interviews, client retention, industry experience, compliance record, assets under management and revenue generated for the firm. Investment performance is not considered. Advisors do not pay to be in the ranking.

[23] *Research* magazine cover story "Advisor Hall of Fame," December 2004 (based on serving a minimum of 15 years in the industry, having acquired substantial assets under management, demonstrating superior client service and having earned recognition from peers and the broader community for how they reflect on their profession). Investor experience/returns were not considered as part of this ranking.

[24] *Barron's* Hall of Fame advisers have been ranked for 10 or more years on the *Barron's* Top 100 Financial Advisors list. *Barron's* listings are based on data compiled by many of the nation's most productive advisers, which has been submitted to and judged by *Barron's*. Key factors and criteria for each award include assets under management, revenue produce for the firm, regulatory and compliance record, and years of professional experience. This award is not indicative of this advisor's future performance.

[25] Presented by the International Association of Registered Financial Consultants (IARFC). Candidates must hold a professional designation and must have disseminated their comments on financial topics by having them widely published in articles, journals, books, etc. They must have provided outstanding personal service or leadership in the financial services industry. Nominees must have participated in some aspect of financial education to the public or to other members of the profession. Investor experience/returns were not considered.

[26] As of June 30, 2019

[27] *InvestmentNews* ranking and status for 2018. For independence methodology and ranking, see https://data.investmentnews.com/ria/

[28] The 2019 Top 50 Independent Advisory Firm Ranking issued by *Barron's* is qualitative and quantitative, including assets managed, the size and experience of teams, and the regulatory records of the advisers and firms. Firms elect to participate, but do not pay to be included in the ranking. Investor returns/experience are not considered.

[29] *Washington FAMILY* magazine 2019 Best for FAMILIES Results, published July 2019. Reader voting results for Best Financial Planner category for Washington DC metro area. Category established by *Washington FAMILY* magazine. Results not necessarily indicative of future adviser performance.