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Proposal: Create a Universal Retirement Platform including Starter IRAs

Policy goals: 1) create full participation in the 401k-type system, 2) teach financial literacy needed to manage defined contribution accounts, 3) increase tax fairness for lower- and middle-income families, and 4) increase personal and national savings and investment.

Rationale: Because the defined contribution, 401k-style system is increasingly becoming the predominant way Americans can save for retirement, it is important for all young people to have the training to use such a system, to have seed money to begin using such a system early, and to have an established account enabling them to continue saving for retirement as conveniently as possible over their lifetimes.

Proposed Policy: To achieve these goals, a fiduciary organization, sponsored by private "donor-investors" (or eventually a government entity), could do the following:

- Set up and maintain a starter retirement account (SRA) for each American citizen applying for a Social Security card. (People could opt out if they chose but few would.), and,

- Place a modest amount of money in each account when established and additional amounts upon completion of the 10th, 11th, and 12th grades and/or specified financial literacy education. Example: an average of, say, $100 or $200 could be placed in these accounts in each increment. These amounts could be adjusted upward and downward for family income, if desired.

- Owners of the SRAs could choose from a basic menu of investment options similar to the U.S. Thrift Savings Plan and many 401k plans (probably indexed funds).

- High schools or other entities could be incentivized and encouraged to teach students how to manage these accounts and to teach savings, investment, and retirement planning skills as part of financial literacy classes. Every high school student would have basic financial knowledge, including how to utilize the retirement system.

- Depending on project design, SRA funds could accumulate tax free or not. Money could only be withdrawn from an SRA only upon retirement of the account owner or surviving spouse, or to pay for educational expenses for offspring. (This parameter might need to be more flexible in a demonstration project under current law.) Withdrawals could be subject to tax or not, depending on policy objectives and project design.

- The sponsoring fiduciary organization would hold SRA funds in trust for individuals until distribution.

- The fiduciary organization also could facilitate annuitizing accumulations at favorable rates of return for retirees with low income or small accumulations to augment Social Security income.

- SRA owners could access their SRA accounts online. Linked to SRA online accounts would be further information about considering the need to continue saving for retirement and information about starting an IRA in the current system and/or participating in an employer-sponsored retirement plan. SRA account information could be linked to general IRA and 401k information and options, as well as other retirement accounts owned by individuals (with privacy protections) to assist in financial planning.

Financing: A total of $800 placed in an SRA in high school, and earning a real rate of 5% (that is, inflation-adjusted), would grow to more than $9,000 over 50 years. If this were taxed as capital gains, and the federal government were the sponsor, it could recoup more than $900 from each account in the future. Therefore, the government (or other sponsor) could be held harmless or experience a small net gain over a long period.

The sponsoring organization could use seed money from philanthropies acting as donor-investors and also accept smaller private donations under a "sponsor a kid" model. Upon retirement, SRA owners that had ample means could donate their accounts back into the program if they chose to do so.

Since there are about 4 - 4.5 million kids in every grade, initial investment for a program covering the entire U.S. would be about $16 billion annually after Year 4. (So, by Year 4, annual upfront investment for Nebraska would be about $90 million, and $340 million for the state of Washington.)

Seed Funding & Pilot Demonstrations: Funding is necessary to: 1) Further develop the concept and resources needed to get it off the ground; 2) Do an inventory of how this concept fits into current law and policy as well as retirement savings and financial literacy initiatives already in play in policy discussions.

Private philanthropists could fund demonstrations in selected geographic areas, including selected states or cities, along with research about how the program might influence retirement savings decisions and levels. If viewed as successful, the program could be expanded by private and public entities including various levels of government.

One way to structure a demonstration under current policy might be to set up Roth IRAs.

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