



The USA Retirement Plan

NIRS Retirement Policy Conference

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and

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The USA Retirement Plan

Mission Statement

“The mission of the USA Retirement Plan Independent Advisory Committee is to design a comprehensive retirement program that turns the Senate HELP Committee’s concept for a national retirement program into a workable, easily understood plan, providing every American worker with an opportunity to begin or enhance their retirement security.”

Overview

The USA Retirement Plan will address an urgent need for enhanced retirement income for all participating workers by providing a *safe, secure, predictable retirement income stream for life.*

The Independent Advisory Committee's report is a roadmap for the implementation of all aspects of the USA Retirement Plan.

Overview – Benefits

- “Notional” accounts
- Investment “collar”
- Accumulation Fund
- Annuity Fund
- Predictable retirement income stream for life
 - No withdrawals or loans
- Emphasis is on retirement income
 - Workers do not need to manage their account balances

The Independent Advisory Committee acknowledges the significant contributions to the USA Retirement Plan design made by the Center for American Progress with its SAFE Plan concept

Overview – Key Features

- Participation is simple, Plan is easy to understand
- All workers with a SSN are eligible
- “Hybrid” retirement plan, combining best features of:
 - Defined Contribution plans
 - Defined Benefit plans
- No investment management burden for participants
- No budgeting risk for participants
- Complete portability for participants
- No risk for employers or Federal government

Contributions

- Contribution rates
 - Participant contributions are pre-tax
 - 3% of pay minimum if employer does not offer any retirement plan
 - Contribute up to 15% of pay; \$15,000 annual maximum
 - Voluntary employer contributions
 - Same (but separate) limits as participant contributions
 - All contributions are invested in the Accumulation Fund

Notional Accounts

- Notional Accounts; not “real” accounts because
 - Credited investment return may not equal actual return
 - Notional account balance is not distributable to participants
 - Notional account balance is not communicated to participants
 - Can see contributions and projected annuity benefit
 - Emphasis is on predictable retirement income for life

Reserve Fund

- Tracks difference between Accumulation Fund and Notional Accounts
 - Accumulation Fund = Notional Accounts + Reserve Fund
- Accumulation Funded Ratio
 - Accumulation Fund ÷ Notional Accounts
 - If greater than 120%, increase Notional Account 1% for each full 10% over 100%
 - If less than 90%, reduce Notional Account by 5%; further 2.5% reduction for each 5% below 85%

Example

(A) Year	(B) Actual Investment Return	(C) Annual Contribution	(D) Actual End of Year Asset Value	(E) Return Adjusted by Collar	(F) Notional Account, before Current Year Adjustment	(G) Funded Ratio before Adjustment	(H) Notional Account Current Year Adjustment	(I) Adjusted Notional Account	(J) Adjusted Funded Ratio
1993	11.92%	\$ 1,000	\$ 1,059.60	8.00%	\$ 1,040.00	101.9%		\$ 1,040.00	101.9%
1994	-2.29%	1,000	2,029.89	0.00%	2,040.00	99.2%		\$ 2,040.00	99.2%
1995	26.98%	1,000	3,704.83	8.00%	3,243.20	114.2%		\$ 3,243.20	114.2%
1996	11.80%	1,000	5,201.00	8.00%	4,542.66	114.5%		\$ 4,542.66	114.5%
1997	17.84%	1,000	7,218.06	8.00%	5,946.07	121.4%	2.0%	\$ 6,064.99	119.0%
1998	15.40%	1,000	9,406.64	8.00%	7,590.19	123.9%	2.0%	\$ 7,741.99	121.5%
1999	15.82%	1,000	11,973.87	8.00%	9,401.35	127.4%	2.0%	\$ 9,583.38	124.9%
2000	-2.41%	1,000	12,673.25	0.00%	10,589.38	119.7%		\$ 10,589.38	119.7%
2001	-4.24%	1,000	13,114.70	0.00%	11,589.38	113.2%		\$ 11,589.38	113.2%
2002	-12.49%	1,000	12,414.23	0.00%	12,589.38	98.6%		\$ 12,589.38	98.6%
2003	13.16%	1,000	15,888.59	8.00%	14,636.53	108.6%		\$ 14,636.53	108.6%
2004	10.25%	1,000	18,568.42	8.00%	16,847.45	110.2%		\$ 16,847.45	110.2%
2005	6.81%	1,000	20,866.98	6.81%	19,028.81	109.7%		\$ 19,028.81	109.7%
2006	11.27%	1,000	24,275.04	8.00%	21,591.12	112.4%		\$ 21,591.12	112.4%
2007	8.19%	1,000	27,304.12	8.00%	24,358.41	112.0%		\$ 24,358.41	112.0%
2008	-28.18%	1,000	20,468.92	0.00%	25,358.41	80.7%	-7.5%	\$ 23,456.58	87.3%
2009	16.18%	1,000	24,851.20	8.00%	26,373.05	94.2%		\$ 26,373.05	94.2%
2010	13.16%	1,000	29,187.42	8.00%	29,522.89	98.9%		\$ 29,522.89	98.9%
2011	0.22%	1,000	30,252.73	0.22%	30,588.94	98.9%		\$ 30,588.94	98.9%
2012	12.17%	1,000	34,995.34	8.00%	34,076.06	102.7%		\$ 34,076.06	102.7%
		\$ 20,000							

The Annuity Fund

- Earliest retirement age is 62
- No maximum retirement age
- At retirement, transfer notional account from Accumulation Fund to Annuity Fund to “purchase” annuity
- Normal annuity form is
 - 50% Joint and Survivor Annuity for married participants
 - Single life annuity for unmarried participants
 - Return of participant contributions death benefit
- Initial annuity conversion interest rate is 5.0%
 - Low risk, but better than current market rates

Cost of Living Adjustments

- Automatic 2.0% annual COLA
- COLA payable as long as Annuity Funded Ratio is at least 90%
 - Annuity Funded Ratio = Present Value of Annuities ÷ Annuity Fund
- COLA suspended if Annuity Funded Ratio is less than 90% for 2 of 3 years
 - Restored when 100% funded for 2 of 3 years
- Suspension of COLA improves Annuity Funded Ratio by 10-15%

Illustrative Benefit

Assume:

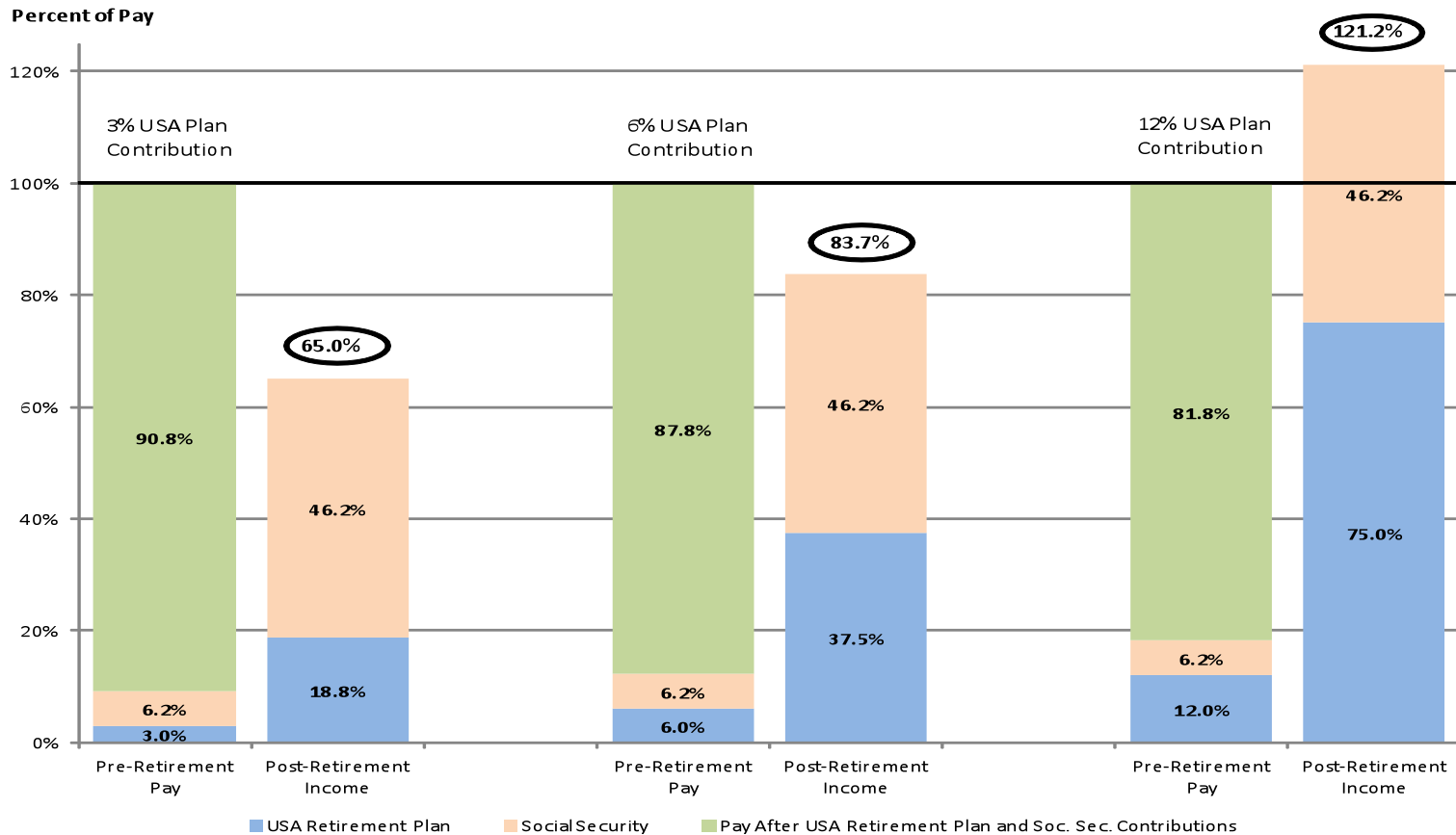
- 27-year old contributes 3% of pay for 40 years
- Pay increases 2.5%/year
- Notional account earns 6%/year

Year	Annual Pay	3% of Annual Pay Contribution	Account Balance at End of Year
1	\$ 40,000	\$ 1,200	\$ 1,236
2	41,000	1,230	2,577
3	42,025	1,261	4,031
4	43,076	1,292	5,603
5	44,153	1,325	7,304
•	•	•	•
•	•	•	•
•	•	•	•
38	99,740	2,992	233,037
39	102,234	3,067	250,178
40	104,790	3,144	268,428

Annual Annuity at Retirement = \$19,656

Investment return accounts for 72% of benefit

How Much Pay Is Replaced by USA Plan, Social Security?



Assumes 40 years of participation, \$40,000 starting pay, 6% annual returns

USA Plan vs. Market Annuity Rates

- Annual Annuity for our 40-year participant retiring at age 67

Contribution Rate	Market Rate 3.25%	USA Plan 5.00%
3.0%	\$16,634	\$19,656
6.0%	\$33,267	\$39,310
12.0%	\$66,536	\$78,620

- USA Plan annuity is 18% higher than market rate annuity

Summary

The USA Retirement Plan

- Simple to participate and easy to understand
- Provides a predictable income stream for life
- No unfunded liabilities
- Complete portability
- Independent Board of Governors and Boards of Trustees (no conflict of interest)

Summary

The USA Retirement Plan

- Minimum 3% pre-tax contribution for participating workers with a Social Security Number
- Prudently managed investments by a team of investment professionals
- Provides important investment in the economy, thereby a force for job creation
- Universal, Secure, and Adaptable (USA)
- ***The USA Retirement Plan is essential to solving the retirement income crisis***