



WESTERN MICHIGAN UNIVERSITY

EXECUTIVE SUMMARY

The “three-legged stool” metaphor for retirement has outlasted its usefulness. Social Security, while under threat from predicted shortfalls, can be solidified with relatively minor changes. Corporate defined benefit pensions are going the way of the dinosaur, and should not be saved. Private saving, whether independent or within government-subsidized programs like the 401(k) and IRA, will have to pick up the slack.

We lay out the problems with Social Security and private saving, take stock of what’s been done up to this point, and make common-sense proposals for reform. Social Security’s fiscal shortcomings can be more than erased by indexing the monthly benefit to account for increasing life expectancy, lifting the cap on earnings that are subject to payroll taxes, and dedicating the estate tax to the program’s legacy costs. For private saving, the 401(k) program serves as the framework for our more robust vision: a tax-preferred program where retirement accounts are tied to workers, not corporations, and employers must contribute to their employees’ well-being in their later years. We delve into the numbers, showing that in 2009 dollars, our plan would provide even a nontraditional employee a dependable income stream that would supplement Social Security benefits and provide a measure of financial security until death.

We close with an analysis of the political reality and a roadmap for our reforms. Policymakers must summon the courage to act, but we cannot make demands until our generation is inspired; our final proposal is to educate young adults – those that stand to gain the most by enactment of our reforms.

TEXAS TECH UNIVERSITY – First runner-up

EXECUTIVE SUMMARY

Current retirement savings policy is a patchwork of legislation that leaves many Americans with insufficient retirement income, results in enormous fund management costs of dubious value, is economically regressive and requires an unreasonable amount of financial knowledge and ability to navigate effectively.

We propose a simple solution based on an existing federal retirement investment platform that provides simplicity, low expenses, portability, reduced burden on employers, minimum retirement contributions for all employees, and forced annuitization.

The existing Federal Thrift Savings Plan (TSP) currently serving public employees could be expanded to serve as a platform for a publicly-managed national retirement system that provides the flexibility of a defined contribution plan with much lower fees and more

competitive investment options. Investment choice is limited to basic index and lifecycle funds, with lifecycle funds as the default to maintain optimal investment asset/human capital portfolios and improved diversification.

Competitive, diversified investment options would result in much needed choice simplification reducing the deadweight costs of active management and investment administration. Each worker would receive a base retirement contribution percentage, as well as an employer match up to a specified threshold. Workers would have flexibility to adjust their retirement savings. There would be significant disincentives to withdraw funds prior to retirement or borrow against retirement savings; however, balances could be transferred to heirs.

Upon retirement, individuals would be given simple annuitization options and would require a minimum annuitization level of 50%, a joint annuity default for married workers and a default for inflation adjustment. The primary advantages of this plan are simplicity to employers and employees, a sharp reduction in deadweight costs, improved investment diversification and increased participation in subsidized retirement savings plans.

Simplification would further be enhanced by eliminating the maze of retirement sheltering alternatives including those that sacrifice long-run social welfare for short-run political gain.

ST. NORBERT COLLEGE – Honorable Mention

EXECUTIVE SUMMARY

This essay provides an assessment of several issues pertaining to the current U.S. retirement crisis and presents potential solutions.

We propose the following: a) limit Social Security payments to the top 10% of the age distribution; b) index COLA to CPI; c) increase the number of H-1B visas to augment tax revenues; d) make the PBGC independent from Congress to allow for realistic insurance rates and foster the adoption of defined contribution pensions; e) better tax treatment and improved reporting requirements for pensions; f) require financial classes at high schools and colleges; g) have the Federal government provide additional funds to young adults who start a personal retirement account.