Episode 66: Social Security and how the government is set up to help you. The ultimate insider's perspective.

00:00
Bob French
The purpose of Retire With Style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to Risaprofile.com/Style and sign up to take the industry's first financial personality tool for retirement planning. Well, we did what they said couldn't be done. We made Social Security fun again.

00:46
Alex Murguia
Hey, everyone. Welcome to retire with style. I'm Alex, and I'm here with Wade. And today we have another special guest. The hits just keep on coming. We got Jason Fichtner. Wade, you want to give him a little intro?

01:02
Wade Pfau
Absolutely. Jason, he's got a great background in terms of government service. So Jason is the chief economist at the Bipartisan Policy Center. And then I know Jason primarily as well as the leader, my boss at the alliance for Lifetime Income Retirement Income Institute, where I'm a research fellow, and he's heading the whole research division at the alliance for Lifetime Income. Jason also has experience as a past acting deputy commissioner at the Social Security Administration. You spent time as a chief economist at the Social Security Administration. You've also been at a number of different economist related positions with the government in the committee. Was it the Committee on Joint Taxation, I believe, if I'm recalling right, joining it on committee. And you have your PhD from Virginia Tech, which Alex and I with McLean Asset Management. We've got a number of our advisors went through their very highly ranked public not public policy, but what is it?

02:01
Wade Pfau
The Financial Planning Bachelor's program. So welcome back to the show, Jason. This is your second time around, and we're very glad to have you, too. We're continuing this arc on Social Security. So great to have you back.

02:16
Jason Fichtner
Thanks for having me. Looking forward to the discussions. Good to see you guys. Saw you this past week. And good to see you, of course, virtually again as well.

02:24
Alex Murguia
Yeah. And for those listening, we'll have a bonus session later on today. We're going to focus on Social Security, and we'll have another bonus session on what we did when Jason, myself, Wade, and the alliance for Lifetime Income got together and did a little thing.

02:42
Wade Pfau
First ever, we'll have a second episode coming out later in the week. Is that special bonus? First time that's ever been done. So a lot to look forward to.

02:51
Alex Murguia
Look at. Now Wade, Now wait. Now, Jason, will you be a third time guest then, or I guess not really?

02:57
Jason Fichtner
Because that's a good point. I'll take it as a third. I want to get as many as possible.

03:03
Alex Murguia
Okay. Wade, quantity is a quality.

03:05
Jason Fichtner
Wait, quantity is a quality.

03:09
Alex Murguia
And so, Jason, so far in terms of this arc, we've spoken a lot about Social Security with regards to how is it the funding, claiming strategies, the pay as you go system, et cetera, the myths and all of that good stuff. But something we really haven't addressed is the other side. How the government? What was their thinking when putting it together and what is their thinking for really trying to create great outcomes for

individuals? And I think when you joined, you had some work to do, if you will. And I think I find it fascinating for a couple of reasons. My takeaway and I'll let wage I'm in it, is just it's always fun to poke fun at the government, right. It's a kind of sport, really, for some people. But I'm really beyond impressed at the level of thought and altruism that goes in it from the standpoint of really trying to set people up for great outcomes.

04:08
Wade Pfau
I'll just and in terms of the direction my career started, I was thinking to have more the path that you took in terms of that government service. I did an internship with the Social Security Administration Office of Economic Policy with people like Dean Limer clark Burdick joyce Manchester. And, yeah, I really got to see firsthand how government officials really do seek to do what's best for the public. And you were at a much higher level than an intern at the Social Security Administration. You're also responsible for a lot of the recent changes that we've seen. So really like to dig into some of those major changes. I think maybe a good starting one was when I first got involved with looking at Social Security, we talked about something called the NRA, which is not the National Rifle Association. It was the normal retirement age. I don't think that's the reason you pushed to change the name necessarily, but.

05:00
Alex Murguia
It'S not branding, Wade.

05:03
Wade Pfau
Branding talk about a normal retirement age anymore. It has a new name. And could you tell us a little bit about that?

05:09
Jason Fichtner
Well, this is what we're trying to work on, and I think one thank you, Wade, and your time at Social Security, one of my jobs as the chief economist and then the deputy commissioner was also to run the research. So I had all those folks under me in some ways, which was good because they're great folks to work with and great researchers. And Alex, to your point, I appreciate you bringing out sort of the altruism. Social Security definitely is an agency that is there to help people, and I mean that sincerely. That is not a joke. They want to do right by the beneficiaries. They want to do right by the public. They care about the people they serve. Service is in their mission and their DNA. And it's important if we start talking about some of the changes we're doing, please keep in mind that it's an agency that is understaffed, could use more resources.

05:52

Jason Fichtner
That doesn't mean you just throw money at the agency. It means it has to be done in a way that is organized, efficient, and thoughtful and there's accountability. But from a service standpoint, they do want to help. And so the question is from policymakers standpoint and legislators, how do we help them do the job they want to do? By helping American people when it comes to retirement, disability and other SSI programs. So that's sort of the first thing. And then Wade with yours question about what we started changing. Just to give you an example, as we know as economists, framing makes a big difference, right? This is like the behavioral economic insight of how you talk about an issue. The words you use have important meanings. When I walked into the agency the first time, we had posters everywhere that said 62, 65, 70. And it sort of was like one thought 62 was anchoring age.

06:38
Jason Fichtner
65 was sort of what we thought as classical retirement. And then 60 and 70 was the maximum age, which you can claim benefits and get maximum retirement benefits. That was not how it was set. It was 62, 65, 70. So like three agents, we didn't talk about 63 or 64, 69 or 63. But what was interesting is that the 62 was anchoring age and what the agency called it and still calls it today, and we're trying to change it. What they call it is the EEA or the early eligibility age. So think about this age. 62 is your early eligibility age. Who out there wants to be late for a government benefit? Anybody? What we're trying to do now is change the nomenclature. So we call it the minimum benefit age so that people walk in and when I was at Social Security, I would pop into field offices and just listen.

07:25
Jason Fichtner
And the number one transaction the agency did back then was replacement Social Security cards. Folks got married, need a new card, they lost it. The number one question was when should I retire? And as you both know from being financial planners, advisors and researchers and experts, there is not a one size fits all answer to that question. And unfortunately, the agency was using something called the break even analysis, which said if you take benefits of 62, you'll be ahead for the next 14 years, never telling people that they lived those 14 years and beyond. They'd behind for the rest of their life. And were doing a disservice. So part of that was how do we change the discussion around the claiming? So we're not forcing people to claim early or late, but have a discussion. And one of the things I created with the agency, with the help of the folks in the research division and the communications and the actuaries, we all had a hand in it.

08:11
Jason Fichtner
But it's a double sided one pager. It's on the web. It's probably one of the only things that has lasted from my tenure at Social Security. So I'm still very proud of it. But if you just Google when to start receiving retirement benefits, Social Security, it'll pop up, double sided, one pager, but it talks about that your decision is a personal one, that your monthly benefit will change depending on when you retire, at what age you claim benefits, that retirement is no longer the same thing anymore. You can stop working and claim

benefits. You can claim benefits and still work. You don't have to make this decision at the same time. And this idea of thinking about your spouse, the spousal benefits every time, most people go, what's my benefit? Well, if you're married when you claim can affect the spousal benefit as well. So that's important in the survivor benefit.

08:52
Jason Fichtner
So we start having the changing in nomenclature. And then, Wade, you brought up the normal retirement age. So the age 62 is called the early eligibility age. The age 66 in some months, it's now going to 67 for folks that are our age is called the normal or full retirement age. Well, how could it be full if you can still get additional benefits if you wait till 70? So that wording is wrong. And what does a normal retirement mean anymore? Can you guys tell me what normal is? Does that mean you don't work anymore and you go sit out on Golden Pond? We now have a changing nature of retirement where one longevity you could be living having quote unquote, retirement for 20 or 30 years, maybe more. We're having more people live to be 100 each passing day. So what does normal mean anymore?

09:34
Alex Murguia
I think it's more like cocoon. I think it's more like Cocoon than ongoing.

09:37
Jason Fichtner
There's bipartisan legislation that would change this. And again, this doesn't change anything with the benefits. We're not changing the tax rate of the benefit structure, but there's bipartisan legislation change this. The wording early eligibility would now be called the minimum benefit age. The normal retirement age would just be called standard retirement age. It still isn't my preference, but it's still better than what we have. But imagine now someone comes into your office, Alex, and Wade and says, I want to talk about Social Security benefit. But imagine now someone comes into your office, Alex, and wait and says, I want to talk about Social Security benefit. When should I claim? Should I claim at 62? And you could say, well, do you want the minimum benefit or the maximum benefit? And they're going to ask you a lot of questions about what does that mean, what does it mean across 60 to 70?

10:16
Jason Fichtner
And that starts a holistic discussion. And we've now empowered people at Social Security to do that. And we've done that by getting rid of the break even analysis and training folks to say, I'm not here to give you advice, I'm here to give you answers to your questions. Start with this two pager and ask your questions and let's walk through what might be good for you. But you have to make a personal decision. We'll help you do that.

10:36

Alex Murguia

Yeah, I heard you say this the other day too, and it struck me it's one of the things I actually remembered within the purview of the Social Security folks. You had said they're not there to help you optimize the claiming strategy. That's not their job. Can you expand upon that? And the reason is I'm thinking about people that are listening in and they're making and they're thinking about this, and I don't know about them, but I would dread having to call anything. It's like calling the airlines or calling DMV or something like that. I would dread having to call. So what would that be like? What is their sort of mo of how they're supposed to answer, et cetera.

11:15

Jason Fichtner

This is where and I think what's important for a financial advisor and a financial planner is that someone is hiring them to give advice. That's sort of the idea. What was always a concern for me 1015 years ago and today is that I don't want the government being the role of giving financial advice. I want them to give educational materials, be able to walk through a process someone can lead to what is the best decision for them. It's a personal decision. What bothered me from the financial planning side and it sort of goes into the term optimizing Social Security. And we had this discussion at the summit. Maybe they will uphold that when we get to our bonus issue. Sure, but is Social Security an asset? For a financial planner, the answer is definitely yes. It's an asset base for people that's going to generate income, which they're going to use in retirement.

12:01

Jason Fichtner

It is part of a holistic portfolio we should talk about. When you think about an asset, though, we think about growing our assets, right? You want to grow an asset. How do you optimize your accumulation? Social Security technically is OASI. It's the old age survivors insurance program. The I is the key word there. Insurance. It was never meant to be your primary means of income or retirement program. It was meant to be an insurance program. Survivors, disability insurance, widow support, old age. The idea was if you retired and you got to the point where you're able to retire and you might have outlived your savings because you got to be older. So it was old age insurance. It gave you some money top you up, to protect you from being poor. It was never meant to be the sole issue of retirement income. And so when people start talking about how do I optimize it gets into sort of gaming strategies of trying to maximize the income, but not maximizing the insurance value that Social Security gives you.

12:55

Jason Fichtner

Because again, this is the best inflation protected annuity money can buy in the market. You can't even get some inflation. Social Security is inflation protected. And what I want people to do is in financial planners especially, is to have a conversation with their clients about what the role of Social Security is in retirement.

Not trying to figure out how you maximize it, because some people trying to maximize we're doing strategies that I think we're gaming the system. And those are things, to Wage Point, we got rid of when I was there.

13:22
Alex Murguia
Now to avoid the let them eat cake sort of response because you're saying great if I have an advisor but I don't have an advisor.

13:32
Jason Fichtner
What now, this is where what the agency is supposed to do is sit down with someone, walk in and answer questions. So someone might say they walk in and are free to say look, I have health issues, I need the money today. And that's I guess my rule of thumb if you need the today, take it. If you don't need today, wait. You can come back next week, next month, next year, sometime between 62 and 70. You claim there's no benefit of waiting after 70. Make sure you file for Medicare at 65 though, that's one of the things you still have to do. But for retirement benefits, for Social Security, 62 to 67. Social Security when they go in to talk to somebody who's a claims that should be asking questions holistically, do you have other assets you need? Do you have a spouse? Do you have a divorce spouse, previous spouse that could benefit from tension delaying?

14:15
Jason Fichtner
What does that mean? Who should we contact? If you file for benefits? Do you have health issues? Again, someone who's 62 with health issues they might not want to delay because they might need the money. Right. Even though spouse benefit could be higher in Survivor if they pass away. So what the agency is supposed to do is have a conversation with people and not pressure them one way or the other. Again, they should not. If someone comes in and spends an hour with the claims rep and decides this is not the right thing for me today and leaves I consider that a success. If someone spends an hour and says today is the right day, that's also a success. But you want us to make sure you give the educational material discussion and you walk them through the questions they have so that they feel comfortable making the decision they do.

14:53
Jason Fichtner
At that point in time you want.

14:55
Alex Murguia
Them to be an uber informed consumer.

14:59
Jason Fichtner
Yeah. And to your point when you said earlier, Alex, this is the altruism that the agency wants to aspire to get to if they're not already there, they should be guiding people and helping them make an informed decision. But the decision has to be on the individual or on the spouse.

15:14
Wade Pfau
Now, what if they do have the question that does get into related to the optimization? So the question could be like is it okay for me to spend some of my other assets now while I'm waiting to start Social Security with the.

15:26
Jason Fichtner
Idea that what the agency should say is this is a personal decision. As advisors we could probably say, yes, it might be a good idea, but let's walk through your portfolio. Because the one thing that's interesting about Social Security is protected, right? This is an inflation protected annuity, and this gets into different sort of who can afford to delay claiming. I don't want to be naive to say that everyone can afford to delay claiming they can. There are some people who have minimal savings. Social Security is their primary means of income and retirement. For them, it's mostly all they have or they have very little savings. They're not going to be able to delay. They need it now, take it now, that's fine, but get to that decision point with full information. And if someone starts asking the optimization question, the answer Social Security can give is, well, if you take benefits early, presumably if you live to the average age, the net present value should be roughly the same depending bases on your longevity.

16:21
Jason Fichtner
So if you're going to live to 80 and you take a benefit at 62, you'll get more checks, but they'll be lower for a longer period of time, where if you delay to 70, you'll get less checks, but for a longer period of time. Now, that gets you kind of back to this break even analysis, which I'm not really a big fan of. For somebody who wants to optimize, they're basing it on their longevity. And so the advice or the discussion is, if you think you're going to live longer, you are better off delaying claim.

16:46
Bob French
The Retirement Researcher Retirement Income Challenge has started up and we had a great first day yesterday. But if you missed your chance to take part, don't worry, you can join our Retirement Income Challenge waitlist so you don't miss out next time, and make sure that you're able to join Wade, Alex and I to sign up for the waitlist. Head over to Risopprofile.com podcast.

17:09
Wade Pfau
That's Risapprofile.com/podcast.

17:10
Bob French
That's Risapprofile.com podcast. See you in the challenge next time. At least.

17:20
Alex Murguia
Someone'S thinking about this. And we had Mary Beth Franklin on the previous episode and she's like I started kidding her, saying like, we should have Chat GPT versus Mary Beth and see what happens, right? Kind of thing. I think she's unique in terms of the breadth of knowledge that she has with regards to all these strategies. For someone that calls in what should be their expectation of who they're speaking with. And what I'm getting at, I'm thinking is I want them to feel confident who they're speaking with on the other end. And if you could provide a little insight with regards to the training that's involved and the like.

17:57
Jason Fichtner
I can't remember I apologize if it was Senator Grassley or Senator Simpson, but a senator made a quip over a decade ago that we spend more time training a Social Security claim to presenter than we do in astronauts.

18:14
Alex Murguia
Well, we did send a monkey to the moon, right? Not to the moon, but in orbit.

18:18
Jason Fichtner
The amount of time and training that the claims reps get is extensive. I don't want to get a joke of this because you're not calling someone and getting someone who's recently just out of high school off the street, who doesn't have any training, Social Security trains.

18:31
Alex Murguia
No, that's why I want you to.

18:32

Jason Fichtner
Say it, because they're trained professionals and you can get different people of different quality. That's where you get with any sort of professional service, if you will. But the agency strives to give the best service possible and to try to have consistency in the language and the presentations. And the more things we can do through scripts that are approved by the agency and by experts, the better off we're going to be helping deliver that customer service. And one of the key things about the word equity is equal. So if we can give people equal treatment, equal access, no matter who they call or where they call into, that's one of the goals of customer service delivery. And so they should expect they're getting someone who's a professional who understands the program and can walk them through questions they have on the benefit structure. Spousal benefits, survivor benefits.

19:14
Jason Fichtner
We get a lot of questions. I keep saying leave them gone. You never leave the agency when part of your life and your mission. But for people who are divorced, there's spousal benefits for divorce, AIDS, and the agency is supposed to ask if you come in to claim, did you have any, what they call material marriage, a marriage that lasted for ten years or longer, because that ex spouse can be due a spousal benefit. Now, that won't change the person who's filing benefit at all, but sometimes they don't know that. So you have to reassure them. Look, if you tell me the answer is yes, I'm not going to take some of your money and give it to your divorced your ex spouse, it's an added benefit. That's part of the program, I think that's part of the education. But they should expect when they call in that they're going to get a knowledge professional who can help them answer their questions on the program design and what that means for them.

20:01
Wade Pfau
Yeah, that's reassuring to hear because if you spend much time reading about Social Security online, I think this is something financial advisors like to point out. And a lot of this is older material at this point. So to have that update is great. But you will see these complaints online about how the agent that someone was speaking with did not understand the rules and they had to print everything out of the Social Security claiming guidebook and so forth.

20:27
Jason Fichtner
Yeah, and there are mistakes that happen, don't get me wrong, there were issues that have happened to family members that we had to call in and get corrected because they got wrong advice or maybe the rights is the wrong word, that the understanding of the program wasn't as nuanced for a technical issue. And I think one of the things okay, sorry. Go ahead, Alex.

20:46
Alex Murguia
No, and I know we're going in this sort of I don't think it's a rabbit hole, because I've never heard anybody

talk about this in a podcast, like the actual mechanics of calling the Social Security office. So I think it's actually quite useful for consumers hearing it. And I get it. Look, results vary. Whenever you have a normal distribution of.

21:08
Wade Pfau
Professionals, you get what you get.

21:11
Alex Murguia
You know what I mean? And you'll vary.

21:12
Wade Pfau
But there is training, like an online review, where, yeah, every once in a while, somebody had a bad experience, but you don't know if that's reflective of what typically happens.

21:21
Alex Murguia
Yeah, but what I found interesting and maybe I heard it wrong, but I just want to make sure that if mistakes do get made, look, they're there to help, and they can be corrected. This is not chiseled in stone. Is that a correct hearing on my part?

21:35
Jason Fichtner
So I would say to somebody, if they think they've gotten and I'll make a core layer sort of with the Internal Revenue Service, what agency takes your money? You're brave, man. One gives it away. But you still want good customer service from both. And regardless of when you call, where you call, what field office, you go to, a district office, or if you get routed to an 800 call center that's a super center. You want to make sure you're getting someone's professional who's there to help you answer your questions and make sure that your needs are met, given the program, it's designed, right? So the IRS, if you owe them money, they should help you pay you the money and not, like, be there to harass you, for example. And make sure you understand that the tax complexities these issues are complex, and I think one of the things we find is that if someone thinks they did something wrong or made a mistake, there's a window in which they can get a correction called in, set an appointment, go see somebody and get it corrected.

22:21
Jason Fichtner
Don't wait ten years to do it. The core of the IRS is sometimes we make mistakes when we file a tax return.

Sometimes it's in the government's favor. Sometimes it's in our favor, and we're allowed to file an amended return. So there are windows in which you can do this. My point is, if someone thinks they made a mistake or there's something they're still questioning, don't wait any longer. Reach out and ask some of the Social Security the question you have.

22:44
Alex Murguia
Yeah, it's not a gotcha sort of cadence. It's more of a let's see how.

22:47
Jason Fichtner
We can help again, the customer service reps don't get a fee or a commission based on how much you get for your retirement. They don't get penalized if you get more money or less or a bonus they are there to help you and that's the important thing. That is their sole mission.

23:06
Wade Pfau
Wonderful. I think the other interesting issue that we could look at is more of the complexity and depth behind the trust fund. And we have talked about the basic on the show. The basics in terms of Social Security was meant to be pay as you go. But because of the changing demographic situation where there's going to be fewer workers, more retirees there wasn't going to be sufficient funds to do a pure pay as ecosystem. So we built up the trust fund. The value of the trust fund peaked. It's now declining. We do need reform at some point and trying to keep that in a non political manner. But you do hear so much like I've heard people talk about the Social Security trust fund as a Ponzi scheme and everything else and could you just walk us through how to think about the Social Security trust fund in the context of the broader government budgets and how the trust fund is used and so forth.

24:02
Jason Fichtner
I've always hated the term Ponzi schemes. It decides that you pull one card and the whole thing right? Let's kind of avoid that. But trust fund financing is complex and it's very important. So if the three of us were running a pension plan so it's the Alex Wade Jason trustees pension plan and we're doing it for our beneficiaries and we bought equities and we bought bonds and part of those bond portfolio included United States Treasuries. That is considered an asset, right? It is a fixed income asset. It's part of the portfolio. It's there we would be able to tell people we own assets including bonds, including Treasuries, Social Security. The trust fund by law was only allowed to invest surplus payroll tax revenues or any payroll tax revenues in special interest bearing Treasuries or Treasuries that are only available for Social Security administrations for the trust fund.

24:58

Jason Fichtner
And the idea is to make sure it gets the full market rate so.

25:01
Alex Murguia
That'S designed and it goes on a.

25:03
Jason Fichtner
Drawer and they draw in West Virginia. But the issue then is you think about government financing. You're borrowing from your left pocket to pay your right on a government financing scheme. So when excess revenues come in, whether they're from corporate taxes, individual taxes, Social Security and they get spent on other things and the trust fund now gets an IOU from the government. So you're basically saying the government owes the government now these trust funds so it's still backed on the full faith and credit of the government which means our ability to borrow money and issue bonds. And so if were no longer able to issue bonds, if the bond market whether that's Japan, China, banks, et cetera said no we're done with bonds which makes you think about the debt ceiling debate we're having. But they said no more bonds. Then those assets would basically be depleted.

25:46
Jason Fichtner
And what do you do? You'd have to print money and then you have inflationary components. And that's the problem. So from a unified budget perspective, it does impact the federal debt. I think that's important to know. And when we think about the debt ceiling, which is right now $31.4 trillion, there's what's called debt subject to limit, and that includes the trust fund assets that are held in Social Security and Medicare. So those are debt to limit, and you can swap some of and what.

26:09
Alex Murguia
Does that mean for the well, from its debt subject to limit? What does that phrase?

26:15
Jason Fichtner
There are some instrumentalities out there that the government is not subject to the debt, but it's very small. Social Security basically to pay benefits, you'd have to take the government debt and swap it for public debt. But at some point this intergovernmental will be public because Wade said we're drawing down the trust fund and that's what we're doing. We're swapping it for public, but it stays under the overall debt ceiling cap. And this gets into what does it mean for reform? Because they were never invested in marketable securities, which could be equities or government bonds that are marketable corporate bonds. And there are some proposals that would do that when we think about what it means going forward, right

now, the trust fund is scheduled or estimated to be depleted in 2033. We got ten years for the retirement trust fund. So this is talking about retirement only.

27:00

Jason Fichtner

That's ten years from now. Current law means that if Congress does nothing, benefits have to be reduced. The Social Administration has no borrowing authority by law, can only pay out in benefits what it collects in payroll taxes, which at the point of trust fund depletion is about 77%, maybe 75, let's just say potentially a 25% haircut. The Social Security Administration, the commissioner, could make a decision we think is undecided to delay benefits. So think about two choices. If Congress does nothing, either the Commissioner at the time says, guess what? I can't pay full benefits. Everyone's getting a 25% haircut. Go thank Congress, don't thank me as commissioner, or we're going to pay you full benefits. But I don't have all the money today, so I have to delay paying you until I get more payroll taxes in, then I'll pay full benefits. But now your full benefits will keep getting delayed in perpetuity until Congress neither, which is a good option.

27:53

Jason Fichtner

So what does that mean going forward and thinking about reform generally, you've had this binary discussion where you have those in the left saying we want to raise benefits or raise taxes or both. You've had those in the right saying we need to reform benefits, raise the retirement age, the cost of living, but we don't want touch taxes. And you've got the Nuanced folks in between saying you got to do something. In between, I want to offer up something for a conversation to start getting people thinking differently. We need to do something on the benefit side and something on the revenue side. The key word there, though, is revenues. Right now, the primary means of supporting Social Security is through the payroll tax. You get some interest on the trust fund assets coming in. We also have taxable Social Security benefits that bring some income in.

28:37

Jason Fichtner

But the primary is the payroll taxes, which again in 2033, nothing is done. It's enough to pay roughly three quarters. The Social Security payroll tax is 12.4%. Right now, uncapped, we could raise and lift the cap, get rid of the cap, but that'd be a big tax increase on those who are above the current level. We also could look at raising the payroll tax rate for everybody. But to make Social Security solvent for 75 years starting in 2033 would be a four percentage point tax increase or a 32% tax increase. That's a lot. That makes labor very expensive. You add on your Medicare taxes, you're looking at 20% potentially for payroll taxes. Add in your federal, your state, local, my gosh, you're not even keeping half your money anymore. Why don't we think about revenues as revenues? Look for alternative sources of revenues either potentially and again, I'm not proposing that I endorse this, but I want to have a conversation about it.

29:30

Alex Murguia
No, you're just putting it out.

29:31
Wade Pfau
I get it.

29:31
Jason Fichtner
You could talk about having a carbon tax that's dedicated towards Social Security. You could have a discussion about a financial transaction tax. You have a discussion about what a better designed estate tax might look like, but again, dedicate the revenues of Social Security. And then when you put those in, just don't put them into treasury bills, which again, the government's going to spend into an IOU. Let's now have the Alex Wade Jason Investment Trust, where the three of us start investing it as if were doing a real pension plan and invest.

30:02
Alex Murguia
In you said something interesting. You said something interesting here that Wade actually pointed out. Wade, you said in your studies of other countries pension plans, were like the only one that does this West Virginia strategy.

30:15
Wade Pfau
And that the IMF. Generally when they're giving advice to countries, they say, don't fund government spending through your pension fund.

30:24
Jason Fichtner
Yeah, and I'd like to get away from that. So one of the proposals I would endorse is whatever we do, if we generate something that creates an additional surplus revenue for Social Security, it should not solely go into Treasuries, it should be a managed trust account. And Senator bill Cassidy is promoting something along those lines. Again, I'm not here to endorse it, but I want to have a conversation what it looks like, because one of my other hats is I help run the Puerto Rico Pension Reserve Trust, which is government surplus revenue coming into an independent organization, which I'm a part of, that now manages the trust fund assets because the payroll taxes are declining. And at some point you need to make up the difference between payroll taxes and what's promised. And that's for the trust.

31:02

Bob French
The Retirement Researcher Retirement Income Challenge has started up and we had a great first day yesterday. But if you missed your chance to take part, don't worry, you can join our Retirement Income Challenge Waitlist so you don't miss out next time and make sure that you're able to join Wade, Alex and I to sign up for the waitlist. Head over to Risoprofile.com podcast.

31:26
Wade Pfau
That's Risapprofile.com/podcast.

31:27
Bob French
That's Risapprofile.com podcast. See you in the challenge next time.

31:33
Alex Murguia
At least I don't disagree. But does that bring up I'm just going to play the other role and I haven't thought it through so I could be off here. Okay, but if you do that, then to some extent there has to be some engineering of the markets because you can say that we're going to invest, but the reality is the US market represents, I don't know, 50% of the global equity market just to say something like that in rough terms.

32:00
Wade Pfau
Right.

32:01
Alex Murguia
And so it becomes in our best interest from a planning perspective not to let the markets drop since so much Social Security in addition to 401 KS are behind it. Let's not try to get in that game because then, yes, there's free markets but not when it's tied to all of these potential liabilities that have to do with people's retirements. That kind of thinking. How would you sort of I don't.

32:26
Jason Fichtner
Want to play the equity premium game, which I think a lot of pension plan has gotten problems with, which they're like, oh, we'll just assume we get a 10% return and our fundings have no problem. I want to do the opposite. I want to assume I get a four or five, four or four and a half percent return and if I do better, I just do better. I don't want to be chasing yield and risk. The point is to set this up for success. So maybe you set it up and your goal is to get treasury bills and that's why they were put there in the first place. But you give

us some latitude to have a diversified portfolio. But if three of us were given a four and a half percent benchmark not ##minal I'm pretty sure you and I could find a really good investment strategy that is diversified, that minimizes risk, probably gets above a four and a half percent target and allows us you.

33:05
Alex Murguia
Haven'T seen my statement, Jason. You haven't seen my statement.

33:08
Jason Fichtner
But this is the point and again it's a lot of money that goes into the market, but there's no I get you. You're thinking about what's the return and where do you want to put money? And this is something I think, and again, don't think of it as being 100% in. Think about this as we still have payroll tax revenues that are going to be three fourths of what goes out. I need to make up that 25% gap. How do I do again?

33:29
Alex Murguia
I was just doing this off top of my head. I was thinking that's part of the.

33:32
Jason Fichtner
Conversation I want to have, though, because everyone's going to have these questions and I think we should find a way to have maybe we do another podcast. Let's walk through an investment trust, how it might look.

33:41
Alex Murguia
That'd be interesting.

33:42
Jason Fichtner
The mechanics later on. I feel like right in we do part two. So part one is let's let Jason sketch it out, alex and Wade attack them. We publish it online and then we have questions come in and we do a part two and see if we can figure out how to I think.

33:55
Alex Murguia
It'D be pretty cool.

33:58
Wade Pfau
You had just like the corporate governance question of when it comes time for the shareholders to vote on things. How does the Social Security us? Government vote on these matters?

34:09
Jason Fichtner
And I think part of this, I'll tell you, because of the Puerto Rico thing we're doing, one, we have what's called an investment policy statement you guys are familiar with, which sets out what our target is, how we plan on invest, et cetera. We also have investment advisors. So large companies do this as well. We are turning over the shareholder rights to vote to them. I don't want anyone lobbying me and saying, you have to vote this way because that's not how we're doing it. The governance basically is to have some independence from the government putting their thumb on us. And so we are independent. I have a six year term where I can't be fired, which my wife says, tell them no backseat. But the only way to remove me is to make a petition to the bankruptcy court because part of this agreement came out of bankruptcy.

34:50
Jason Fichtner
So imagine a situation where you want to have some ability to remove somebody. But maybe it's not that the president can fire me. Maybe the congress can't. Maybe it's got to be you got to have both, right?

35:01
Alex Murguia
There's a separation of church and state.

35:02
Jason Fichtner
Here powers where it takes three fourths of the House and the Senate and the President to do it. And maybe the Supreme Court's got a way in. You figure out something where you have independence and then you make those decisions and people to be qualified.

35:16
Alex Murguia
I do like this pension idea that you had, though. I think that's cool because an investment.

35:21
Jason Fichtner
Trust is not a sovereign wealth fund because one, I don't want to report to any sovereign and people joke

about where the wealth is going. It literally is an investment trust which is designed to be in some ways, the sole beneficiary would be the Social Security Administration of the trustees of Social Security to pay benefits that they can't pay just based on payroll taxes alone.

35:39

Alex Murguia

No, I think that's good and if you really want to have that discourse look, we have a large enough audience that I think this would be of interest to a lot of folks.

35:46

Jason Fichtner

Maybe this is maybe the queue right now to say you guys are going to put a little file together and say hey, we have all these questions for Jason on investment trust and you start collecting them and then we have that for the episode we do in the future.

35:56

Alex Murguia

No, absolutely. But I think we can set it up nicer than that, too. But it's something to be more relevant with regards to what's happening right now. Because you said the debt ceiling, and we usually are always thinking about more evergreen things. But this is Social Security for folks that are listening right now about the debt ceiling and things like that. Because this episode will air in a few days. Actually. This is going to be hot off the press. What would you tell folks with regards to all the discussions that's going on right now? And if they're thinking oh, am I going to expect my Social Security check if for whatever reason it's not et cetera.

36:31

Jason Fichtner

Twofold, one, three things one I do not think that Congress will allow us to go over the point at which treasury has no options on extraordinary measures. I could be wrong but so far the history is they get to the cliff and at the 11th hour and 59th minute and 59th 2nd they make a deal and something happens to solve off Armageddon. But let's say we do one people will still get their Social Security checks so there's statutory authority, there's financial authority again the trust fund assets allow you to take those assets and they're only to be used for the payment of Social Security benefits. They can use those trust fund assets literally. Think about a bar chart in which you have that through 1.4 trillion that consists of public debt and intergovernmental. You swap the intergovernmental go on the market, you sell it to Japan, the banks of China for public debt that gives money for Social Security and you have not changed the total number of debt dollars outstanding.

37:21

Jason Fichtner

It's just a swap and they'll get paid and treasury can prioritize interest on the debt and Social Security. One of the things we learned after 2011 debt ceiling is the treasury and Federal Reserve had discussions where they in their minutes to their meetings show that they were having plans and had plans to prioritize payments. Those will get made so probably will not be a technical default. Social Security get paid. The last thing though is everything else gets screwed up. So this is where the left and the right are sort of missing it.

37:51
Wade Pfau
I laugh because I don't want to.

37:52
Alex Murguia
Cry.

37:54
Jason Fichtner
Pay Social Security. Yes. Well, you're not going to pay anything else though so that's the problem. So the markets are going to react negatively. So if you're on Social Security and you have 401K, guess what? It's now a 201K. Well, this gets solved out, it's gone down by half. Interest rates go up. You want to buy a house, rates go up. Or buy a car, rates go up. To say, we can pay Social Security helps make sure those checks go out. But seniors are still going to be impacted because the overall economy is going to be impacted and so are the things that they were relying on for other income. Yeah.

38:22
Alex Murguia
You still have a fire in the kitchen.

38:24
Jason Fichtner
Exactly. Yeah. The house is on fire and you basically put out the couch. Anything else that's burning down around you're like, I'm fine.

38:30
Alex Murguia
It's a comfy couch.

38:33
Jason Fichtner
That clear. It does not solve the underlying problem. So what I don't want is I don't like when the

Republicans go out and say, oh, we can prioritize payments, there's no problem. Yeah, we can prioritize some payments and there's still a problem. Or Democrats go and say, you're not going to get a Social Security check. Yeah, you're going to get it, but you're still going to have problems. So everyone needs to come together and negotiate.

38:53
Alex Murguia
No, I think this is very helpful and it's a good transition. For the next conversation we wanted to have with regards to why reliable income, why sources of reliable income are extremely important, which is part of what the alliance for Lifetime Income is about. Wade I don't know anything else about Social Security. Jason before we move to the next.

39:18
Jason Fichtner
Just one trust fund depletion does not mean bankruptcy. Let's just get that out there. It'll be there for you. And even if you think Congress and we talk about sequence of return risk, market risk, I always now talk about political risk, who's going to be in the White House, what party, and we get to 2033. But realize that even if Congress does nothing and they just can't agree on anything and things just go to h*** in a handbasket, you still get 75%. That's a lot better than zero. And then we need to talk about how we can start thinking about planning for how to make up that gap if that does happen. So that the worst case scenario is you do get a reduction in benefits and you plan for it and you get an increase. Best case scenario, there's no reduction in benefits and you got extra money where you can spend in retirement, lead to your kids.

40:00
Jason Fichtner
That's how I sort of frame.

40:03
Wade Pfau
Wonderful. Yeah. Let's wrap up this one. And for the first time ever, we're going to have a special bonus episode later in the week so you don't have to wait a full seven days to get your fill of retire with style. We'll be back with Jason later this week to talk about the alliance for Lifetime Income Summit that were all at in Washington, DC on May 16 and what happened there. There's a really interesting event. So thanks everyone for listening and we'll catch you again soon. Thank you, Jason. And we'll be talking to you again in just a moment or just a few days here on Retirement Style, and.

40:37
Jason Fichtner
I thank you both for having me on, talk about Social Security and looking forward to the next conversation.

40:41
Alex Murguia
Wade and Alex are both principals of McLean Asset management and retirement researcher.

40:42
Bob French
Wade and Alex are both principals of McClain Asset management and retirement researcher. Both are SEC registered investment advisors located in Tyson's, Virginia. The opinions expressed in this program are for general informational and educational purposes only and are not intended to provide specific advice or recommendations for any individual or on any specific securities. To determine which investments may be appropriate for you, consult your financial advisor. All investing comes with a risk, including risk of loss. Past performance does not guarantee future results.