The Recapitalization of America

Making the **Consumer #1** in the U.S.

Today's pension industry, currently **estimated** at **$29 trillion in value**[1] contains many complex and frustrating regulations.

It's also an industry that, in some respects, seems a bit disjointed due to the number and variety of players catering to the private and public retirement sectors.

The industry has grown in stature and influence in ways never imagined.

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[1] *www.ici.org/research/stats/retirement/ret_18_q3*

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Despite its complexities and competing services, the industry has grown in stature and influence in ways never imagined when the first retirement plan was implemented almost 200 years ago.

It has become an example of the capitalist system at its very best in attempting to set funds aside for future retirement needs. It also offers an example of big government using its power and authority to act as a stimulus to help its citizens accumulate assets for their golden years. This is done in a systematic, purposeful manner by creating special tax incentives until the individual participant retires and begins receiving their benefits.

Coincidentally, the U.S. Treasury has recently been experiencing what one might consider a windfall gain in tax revenue. However, that would be a misstatement. **What's actually happening** is millions of Baby Boomers have begun drawing down on their retirement savings and starting to pay taxes on these deferred incomes.

Despite this "windfall," there remains an urgent need for new capital investments to help the economy embark on a true and more predictable growth pattern. Because of its size, the pension industry has a unique opportunity to address this need by putting a portion of its resources back into the system in a way that would **reduce** some of the **pressures** on **capital markets** for more **infrastructure** and **small business financing**.

The Benefits of a National Pension Bank

After the economic crash of 2008, financing of small business in America came to a virtual standstill, in large part due to the extraordinary restrictions placed on banks by Congress.

Not surprisingly, small business formation rates plummeted.

As a result, there is currently **more private funding of small business loans**, which is less regulated, than is taking place in the banking industry.

Over the last 12 to 18 months, this trend has begun moving in the right direction. However, I would not go so far as to call it a turnaround in small business lending.

The **solution**, I believe, would be the formation of a **National Pension Bank (NPB)** authorized by the federal government and operated by **experts** from **within** the **pension field**.

The structure would consist of **four regional Pension Bank districts** located in the east, mid-west, south and west. Every pension plan and IRA in the U.S. (public and private) would be **required** to **invest 20%** of its assets into its regional Pension Bank.

Each of these regional NPBs would be managed by a board of governors made up of professionals from the banking, insurance, mutual funds, RIA, accounting, benefit and actuarial sectors.

Each board member would serve four years. Each regional bank would also have a governor appointed by the Federal Reserve, for a total of seven governors per bank.

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The NPB's sole purpose would be to make **prudent investments** designed to **create jobs** and **wealth**.

This would be done by making SBA-type loans and providing funds for infrastructure redevelopment and expansion. Forty percent of the bank's investments would go to SBA loans, sixty percent would go to infrastructure.

To guide NPB policy, the U.S. Treasury, Department of Labor, Secretary of the Interior and the Small Business Association (SBA) would each submit a paper recommending how NPB funds could be disbursed. From there, the four NPBs would collectively develop an **investment policy** stating how they would disperse the funds in each geographic region.

Once established, the overall investment policy would be governed by a **National Board of Governors** appointed in the same manner as the current Federal Reserve Governors.

Each regional NPB would be exempt from state and federal taxation, and the stated return on the loans would be based on a formula equal to the **annual inflation rate plus 1.75%.** There would also be limitations on withdrawals. Pension plans and IRAs would need to show a legitimate need for the withdrawals, which would occur over time based on actuarial tables.

At the end of each year, the Pension Bank would distribute **50% of the excess earnings** above the stated yield formula among all the retirement plans and IRAs.

All four Pension Banks would be allowed to participate in certain joint investment ventures to spread the risk. The **20% mandatory investment** from every qualified retirement plan or IRA (the funding source for each of the regional NPBs) would be monitored through the 5500 information return.

Turning Dead Capital Into Productive Capital

It is my belief that such a program would **revitalize** the **economy**, creating tens of thousands of new jobs by generating **new capital** out of **"dead" capital**.

It would also help restore our aging infrastructure, return America to annual economic growth of three percent or better, and help reduce certain areas of the bloated federal budget.

For example, if money in the NPB goes to fund infrastructure and SBA loans, the federal budget for funding the SBA could be reduced.

What do I mean by **dead capital**?

Once the initial capital has been raised to help a company expand its goods and services, it starts getting traded on one of the national exchanges. From that point it ceases to provide the same financial impact on the shares being traded for the first time.

Its nature changes with the hope the investor will gain market value from its investment, and that management (if successful) will reward initial or subsequent investors by paying out dividends and hopefully increasing market value.

In effect, the NPB would take money invested in stocks and bonds that is no longer producing new capital and begin creating new capital to go into the market economy.

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In doing so, it gives America's workers a way to say **thank you** – by using a portion of their retirement dollars to help stimulate the economy in a most efficient and effective way – for the privilege of **accumulating their retirement savings in a tax-deferred environment**.

The information, views and opinions contained in the article are those of the author and do not necessarily reflect the policies or positions of PenChecks Trust, its owners, management or employees.

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PenChecks, Inc. is the parent company of PenChecks Trust, a trusted provider of outsourced retirement plan distribution services.

An acknowledged leader in the pension benefits distribution field, Preovolos holds professional designations as a Registered Investment Advisor (RIA) and an Accredited Pension Administrator (APA).

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