

First Financial Benefits, Inc
Houston, Texas

Statement of Rick Gornto, CFP, President of First Financial Benefits Inc.

To the House Committee on Financial Services

2129 Rayburn House Office Building

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Mr. Chairman and members of the committee, thank you for inviting me to this hearing and allowing me to speak to you today about the very important topic of Social Security reform. My name is Rick Gornto and I am President of First Financial Benefits, Inc. a retirement plan designer and administrator in Houston, Texas. The reason I'm here today is to talk to you about how the Galveston Plan could be a model for America and to review with you how the plan was designed and how it has performed during the last 25 years in several counties and cities in south Texas.

In 1980, I was asked by Don Kebodeaux, my business partner, county Judge Ray Holbrook and county attorney Bill Decker of Galveston County to see if I could design a privatized substitution for Social Security. During the ensuing nine months the plan was developed and presented to Galveston employees and county commissioners who both voted overwhelmingly to adopt the plan.

The county then had decided to opt out of Social Security and install a private plan beginning Jan.1, 1981.

The primary design features of the plan were as follows:

1. Design the plan that mirrored Social Security benefits; Retirement, Survivorship and Disability benefits
2. Design the plan to have equal to or greater benefits with equal to or less costs
3. Design the plan to have fixed costs over an long period of time
4. Design the plan with more flexibility than both Social Security and their current state retirement plan(Texas County and District Retirement plan)
5. Design the plan to have guaranteed returns on the investments i.e. take no risks
6. Allow for hardship withdrawals
7. Allow for lump sum distributions
8. Do not include cost of living adjustments
9. Design the plan that has private accounts and private ownership of the plan assets

10. Design the plan that the employees can leave to their estate
11. Design the plan the has built in tax efficiencies

These plan features were drafted and all but the hardship withdrawal option exists today. The plan has been very successful in meeting its intended goals and there have been hundreds of people who have used these benefits for their personal retirement, income replacement and their estates. The plan has covered a diverse range of people at different wage levels as well as both union and non union workers.

The plan investment performance has been excellent as well. During the past 25 years the plan has provided returns from between 15% and 3.75% return. The guaranteed rates that have been paid have always been higher than the prevailing interest rates in the general economy so that the plan has always been very competitive when compared to other fixed return investments.

It is my contention that this plan, with a few modifications, could be used as a national plan. It is a plan that is based on asset building rather than pay-as-you-go, personal ownership rather than no ownership and guaranteed returns on your investment rather than no assurance that you'll get the return that was promised.

There are seven million government workers in America and 30 countries throughout the world that have dumped Social Security pay as you go type plans and opted for asset building plans. My review of several of these type plans shows me that all of them have and will outperform our current Social System on an investment return basis. They have all recognized the same thing that we're seeing today. It's better out there then it is in here. They understand that a pay as you go system cannot survive when in the next 25 years in America there will be a 200% increase of plan beneficiaries and only a 10% increase in workers. That's a 20: 1 ratio. Unless the government can change the current demographic trend than no short term salvos; like increasing the payroll taxes, extending the retirement age or cutting the benefits to any reasonable level can fix the problem. And if we do try to throw trillions at this system over the next 35-40 years our children will eventually look up and realize that there fathers and mothers have left them holding the proverbial "bag". If we're going to throw money anywhere then let's throw it at a system that will survive and thrive just like Galveston and Brazoria Counties and so many others have already done.

Thank you again for having me here today let's please get together to make something good happen for all Americans.