

MEMO# 10594

December 22, 1998

INSTITUTE PARTICIPATES IN WHITE HOUSE CONFERENCE ON SOCIAL SECURITY; PRESIDENT CLINTON TO CONSIDER USE OF PRIVATE ACCOUNTS

1 The conference proceedings contain a complete list of participants and their available statements. To obtain a copy, please contact Institute's Library Services Division at (202)326-8304, and ask for this memo's attachment number: 10594. [10594] December 22, 1998 TO: BOARD OF GOVERNORS No. 84-98 FEDERAL LEGISLATION MEMBERS No. 33-98 PENSION COMMITTEE No. 90-98 PRIMARY CONTACTS - MEMBER COMPLEX No. 119-98 PUBLIC INFORMATION COMMITTEE No. 61-98 RE: INSTITUTE PARTICIPATES IN WHITE HOUSE CONFERENCE ON SOCIAL SECURITY; PRESIDENT CLINTON TO CONSIDER USE OF PRIVATE ACCOUNTS

On December 8 and 9, President Clinton hosted the White House Conference on Social Security, culminating a year of activity on Social Security that began last January with the State of the Union address and continued through a series of three town hall meetings. The conference was intended to serve as a forum to begin serious policy discussions on the future of Social Security and the broad range of reform proposals. President Clinton said the conference goal was "to open honest debate and to build consensus." More than 250 people participated, representing the Congress, the Administration, academia, labor, the business community and social policy groups. The Institute participated on behalf of the investment company industry.¹ Institute Position The Institute presented its position on Social Security reform (a copy is attached), which stressed the following points. First and most importantly, ensure Social Security's long-term health and maintain its status as a universal system. This will assure a floor benefit to Americans who have not had the benefit of either employee-sponsored programs or individual savings. In that regard, each of the three pillars of the nation's retirement savings structure—Social Security, individual savings and employer-sponsored retirement plans—should be strengthened to improve the nation's overall retirement savings health. The success of employer-sponsored plans and individual savings options will reduce the strains on Social Security. Second, if Congress chooses to proceed with individual accounts under Social Security, the program must include two important components. Appropriate investor protections, similar to those found in securities laws, must be put in place, and a significant public education campaign must be included to explain investment principles, markets and risks, and product disclosure. Finally, to ensure an orderly transition to individual accounts, the program should initially require all individual accounts to be invested in government-sponsored funds. However, it is important that Congress create a mechanism to allow individuals to elect other investment options after the program is underway. This is important for several reasons. First, it would

allow participants to select investments that meet their own objectives. Without such an option, government-managed investment pools run the risk of becoming extremely large, with unintended impacts on the markets. In addition, competition with private managers would improve the overall system. Finally, many private managers already have well-established infrastructures to handle such accounts.

Conference Developments The two-day conference began with an open panel discussion focused on three policy issues facing Social Security—the budget surplus, the impact of reform on different segments of society and private market options. On the second day, President Clinton and members of his Administration met privately with 48 Members of Congress. At the conference, President Clinton said that Social Security reform remains his top domestic priority. He also reiterated the five core principles to guide Social Security reform: 1) strengthen and protect the existing program; 2) maintain universality and fairness; 3) provide a dependable benefit; 4) continue to protect disabled and low-income Americans; and 5) maintain fiscal discipline. The role of the private markets in Social Security reform was among the most heavily discussed issues at the conference. President Clinton said he is seriously considering the idea of using private markets to increase the return on Social Security revenues. However, the President has not made a final decision and remains open to a broad range of possibilities, ranging from individual investment accounts to government investment of the Social Security trust fund. Significantly, House Minority Leader Richard Gephardt (D-MO) also indicated reserved support for the creation of voluntary individual accounts to supplement the existing Social Security program. Most participants said they are considering the use of equity investments within Social Security to achieve a higher rate of return without raising the Social Security retirement age or increasing payroll taxes. The Administration has indicated that it may propose a reform plan early next year, possibly in the State of the Union address scheduled for January 19. In the meantime, to create a starting point for further work on the issue next year, White House aides and congressional staff from both parties are drafting an analysis of the problems facing the program and a description of the reform alternatives. We will keep you informed as this matter develops.

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