INVESTMENT COMPANY INSTITUTE

MEMO# 10169

August 4, 1998

SENATOR ROTH INTRODUCES SOCIAL SECURITY BILL

[10169] August 4, 1998 TO: PENSION COMMITTEE No. 50-98 RE: SENATOR ROTH INTRODUCES SOCIAL SECURITY BILL

____ Senator Roth recently introduced the "Personal Retirement Accounts Act of 1998," S. 2369, which would amend the Social Security Act and create a new Personal Retirement Program. The program would establish personal retirement accounts for working Americans funded by a portion of the current budget surplus over the next five years. The program would be modeled on the Federal Thrift Savings Plan. Individuals eligible for a deposit in his or her personal retirement account would include those who had earned the minimum for four quarters of Social Security coverage ($2,880 in 1999, indexed annually). Under this eligibility standard, approximately 127 million Americans would receive a deposit in 1999, rising to approximately 137 million in 2003, the last year of the program. The first deposits would be made to personal retirement accounts by October 1, 1999. S. 2369 would distribute half the budget surplus each year from 1998 through 2003 into personal retirement accounts. During the five-year program, each eligible individual would receive a minimum amount of $250 per year in his or her account, plus an additional amount based on his or her share of payroll taxes. For example, someone earning $68,400 would receive about $3,800 over the five-year period, or a 14% rebate of payroll taxes. The bill would create an independent Personal Retirement Board to oversee the program. Members would be appointed by the President and Congressional leaders and be subject to Senate confirmation. Board officials would be deemed fiduciaries, and would be required by law to act only in the best financial interests of the beneficiaries. The money in the program could only be used for retirement benefits for accountholders and the program's operating expenses. Accountholders would be provided with three investment choices as follows: (1) a stock index fund; (2) a bond/fixed income fund; and (3) a U.S. Treasury bond fund. The bill requires that the stock index fund represent a commonly recognized index fund comprised of common stock, as chosen by the Board. At least twice a year, accountholders would be permitted to change investment options. If an accountholder failed to make an investment election, the account would be invested in the U.S. Treasury bond fund. The personal retirement accounts would be deemed a trust under section 401(a) of the Internal Revenue Code. Therefore, both contributions and distributions to the accounts would be subject to the rules applicable to such trusts. Accountholders would have two distribution options, an annuity or an annual payment based on life expectancy. If the account balance is below a certain minimum, to be established by the Board, the bill would require that the account be distributed in a lump-sum payment. - 2 - Within three years of enactment of the bill, the Board would be required to submit a report to Congress regarding recommendations on the following: (1) whether the Board should make investment funds managed by qualified professional asset managers available to accountholders; (2) whether accountholders should be permitted to transfer all or a portion of the balance in their personal retirement accounts to a new form of individual retirement account that would be managed by qualified professional asset managers; (3) whether the Board should provide an alternative for the investment of a personal retirement account for which no investment election is made to the U.S. Treasury bond fund; and (4) whether the Board should offer diversified investment selections for such accountholders that take into consideration the age of the individual. A copy of the bill is attached. Kathryn A. Ricard Assistant Counsel Attachment

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