INVESTMENT COMPANY INSTITUTE

MEMO# 10186

August 7, 1998

CHAIRMAN ROTH INTRODUCES PERSONAL SAVINGS ACCOUNT PROPOSAL

[10186] August 7, 1998 TO: BOARD OF GOVERNORS No. 50-98 FEDERAL LEGISLATION MEMBERS No. 19-98 PRIMARY CONTACTS - MEMBER COMPLEX No. 69-98 PUBLIC INFORMATION COMMITTEE No. 32-98 RE: CHAIRMAN ROTH INTRODUCES PERSONAL SAVINGS ACCOUNT PROPOSAL ____ On July 29, Senate Finance Committee Chairman William Roth (R-DE) introduced S. 2369, the "Personal Retirement Accounts Act of 1998." The bill would dedicate half the projected federal budget surplus over the next five years ($292.5 billion) to personal retirement savings accounts for working Americans. Though the accounts would be completely separate from Social Security and would not reduce Social Security benefits, the bill states that "using the Federal budget surplus to fund personal retirement accounts would be an important first step in comprehensive Social Security reform and ensuring the delivery of promised retirement benefits." Under the bill, each person who has earned enough to qualify for four quarters of coverage under Social Security ($2,880 in 1999, indexed annually) would be eligible for a deposit; each eligible person would receive $250 annually, plus an additional amount based on their share of payroll taxes. Chairman Roth estimates that over the five years covered under the bill, a person at the minimum wage would have $1,724 deposited in the account, an average wage earner would receive $2,304 and an individual who pays the maximum Social Security tax would receive $3,842. The bill would offer investment options similar to those in the Federal Thrift Savings Plan for federal employees, with three investment choicesan equity index fund, a bond index fund and a government bond fund. The Personal Retirement Accounts Board, established under the bill, would be required to report to the Congress within three years of enactment with its recommendation on whether investment options should be broadened to include a new form of IRA in the private sector. When a person files for Social Security benefits, withdrawals could be made either in the form of an annuity or as annual payments based on life expectancy. 1 See Memorandum to Board of Governors No. 47-98, Federal Legislation Members No. 17-98, Primary Contacts-Member Complex No. 65-98 and Public Information Committee No. 30-98, dated July 29, 1998. Other Individual Account Legislation Earlier this year, several other pieces of legislation were introduced that would establish some form of individual investment account, either in the context of Social Security reform or by employing projected federal budget surpluses. House Budget Committee Chairman John Kasich (R-OH) in March introduced H.R. 3456, similar in several respects to Chairman Roth's bill, S. 2369. Under the Kasich bill, 80 percent of the budget surplus would be put into "Social Security Plus Accounts." Each person earning at least $2,800 in a given year would receive the same

contribution amount in his or her account. Under the Kasich bill, investment would be allowed only in a program like the Federal Thrift Savings Plan. Senate Finance Committee Ranking Democrat Daniel Patrick Moynihan (D-NY) and Senator Robert Kerrey (D-NE) in March introduced S. 1792, which includes major reforms to the Social Security program and a personal "voluntary investment account" permitting annual contributions of 2 percent of taxable wages (a maximum of $1,950 in 2003). Investment could be either in a program like the Federal Thrift Savings Plan or in an account with the same investment options as an IRA. As reported earlier,1 the chairmen of the National Commission on Retirement Policy in July introduced legislation that reflects the Commission’s recommendations for Social Security reform. The bill would require individuals to invest 2 percent of taxable wages in individual savings accounts with investment choices modeled after the Federal Thrift Savings Plan. Additional voluntary contributions of up to $2,000 annually could also be invested in the account, without affecting contribution limits to IRAs. We will keep you informed of further developments. Matthew P. Fink President

---