MEMO# 11007

May 25, 1999

SOCIAL SECURITY REFORM PROPOSALS UPDATE

1 See Institute Memorandum to Pension Committee No. 48-98, dated July 29, 1998 (describing last year's bill). [11007] May 25, 1999 TO: PENSION COMMITTEE No. 34-99 RE: SOCIAL SECURITY REFORM PROPOSALS UPDATE

____ As many of you are aware, the debate on how to reform the Social Security system continues to unfold. Two significant proposals have recently been released. Most recently, Congressmen Kolbe (R-AZ) and Stenholm (D-TX) introduced H.R. 1793, a bipartisan bill entitled the "21st Century Retirement Act." This bill, among other reforms, would create individual savings accounts funded with 2 percent of the current Social Security payroll tax. A similar proposal was introduced in the Senate by Senators Gregg (R-NH) and Breaux (D-LA). A copy of H.R. 1793 and summary materials are attached. Additionally, Representatives Archer (R-TX) and Shaw (R-FL) last month released their own reform proposal. This proposal has not yet been introduced in the form of a bill. Available details are attached in the form of a press release and a memorandum from the Social Security Administration's Deputy Chief Actuary, which more fully describes the proposal. I. Kolbe/Stenholm; Gregg/Breaux. H.R. 1793 is similar to a bill introduced last year by the same legislators.1 The bill would create mandatory "Individual Security Accounts" funded with 2% of the 12.4% Social Security payroll tax. The Individual Security Account program would be modeled on the Thrift Savings Plan currently available to federal employees. Initially, investment options would include a stock index fund, a bond index fund and a fund invested in Treasury securities. Individuals would be allowed to make additional voluntary contributions of up to $2,000 annually to the account. There would be a tax credit for workers earning less than $30,000 per year who make voluntary contributions. The bill also contains changes to the traditional Social Security benefit program, including changes to the "bend points" used to calculate benefits. These changes would reduce benefits paid to middle and upper income individuals. These changes, however, are not as substantial as those proposed last year, because general revenue would be used to pay for a portion of the transition costs associated with establishing the individual account program. The bill also would raise the number of computation years for determining benefit levels from 35 to 40 years to reflect longer working lives, but would make adjustments for those who leave the workforce to raise children. Last year's proposal to raise the normal retirement age also is modified in this bill. Rather than raise the retirement age to 70 as proposed last year, this bill would only accelerate the already scheduled raising of the age to 67. The age would be indexed thereafter to keep pace with increases in longevity. Further details of the bill are attached. II. Archer/Shaw. The Archer/Shaw proposal would establish individual accounts and fund them from general revenues. Annual contributions to these "Social Security Guarantee Accounts" would be in the form of refundable tax credits equivalent to 2 percent of each individual’s OASDI taxable earnings. Individuals would be permitted to invest account assets in one of 50 pre-approved investment vehicles. The plan assumes that each of these approved funds will be comprised of 60% indexed equities and 40% corporate bonds with fees limited to 25 basis points. Account assets would accumulate in the account until retirement age, at which point in time the individual would receive from the Social Security Administration a benefit equal to the greater of his or her traditional Social Security benefit or the annuity value of his or her account. When in pay status, the monthly annuity value of the account, which is calculated at date of retirement, would be transmitted from the account each month to the Social Security Administration. Individuals who die before retirement are able to leave their account balance to their heirs, who would be permitted to use the inheritance for any purpose they wish. If individuals die after retirement but before the entire value of their account balance is exhausted in annuity payments, the remaining balance can be transferred to a surviving spouse. Upon death of the surviving spouse, any remaining account balance would be transferred to the OASDI trust funds. Russell G. Galer Senior Counsel Attachments

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