MEMO# 10158

July 29, 1998

SOCIAL SECURITY REFORM BILL INTRODUCED AS "TWENTY-FIRST CENTURY RETIREMENT ACT"

1 See Memorandum to Board of Governors No. 39-98, Federal Legislation Members No. 12-98, Pension Committee No. 35-98, Primary Contacts - Member Complex No. 50-98 and Public Information Committee No. 22-98, dated June 11, 1998. [10158] July 29, 1998 TO: BOARD OF GOVERNORS No. 47-98 FEDERAL LEGISLATION MEMBERS No. 17-98 PRIMARY CONTACTS - MEMBER COMPLEX No. 65-98 PUBLIC INFORMATION COMMITTEE No. 30-98 RE: SOCIAL SECURITY REFORM BILL INTRODUCED AS "TWENTY-FIRST CENTURY RETIREMENT ACT" ____ In June, the bipartisan National Commission on Retirement Policy, chaired by Senators Judd Gregg (R-NH) and John Breaux (D-LA), and Representatives Jim Kolbe (R-AZ) and Charles Stenholm (D-TX) issued an important report on retirement security issues that included proposals for both Social Security reform and enhancements to other retirement security programs.1 As expected, the Social Security reform proposals from that report have now been introduced as legislation by the chairmen of the Commission. The bill, titled the “Twenty-First Century Retirement Act,” has been designated as S. 2313 in the Senate and H.R. 4256 in the House. Other retirement security proposals from the Commission’s report have not yet been introduced in legislative form. The bill would require individuals to invest two percentage points of the 12.4 percent OASDI tax in individual savings accounts modeled after the Federal Thrift Savings Plan (which currently offers as investment choices an equity index fund, a bond index fund and a government bond fund). Individuals would be able to determine how their account assets are invested. In the absence of an individual election, the Social Security Administration would make the investment decision. All individuals, without regard to adjusted gross income, could make additional voluntary after-tax contributions to their accounts of up to $2,000 annually; these contributions would receive tax treatment similar to a non-deductible IRA—although contributions would not be tax-deductible, taxes on earnings would be deferred until withdrawals are made from the account. Individuals could make these voluntary contributions in addition to their full IRA contributions. The Commission report contemplated the possibility that the private sector may have a future role in managing individual savings accounts. This legislation would establish an Individual Security Fund Board within the Social Security Administration, which would be responsible for managing the individual account program, in addition to considering changes to the future management of the program. The Board would be required to study ways to increase an individual’s investment options, as well as how to treat rollovers and distributions. The bill requires the Board to report its recommendations to the President and the Congress within two years of enactment. Under the legislation,

distributions from individual savings accounts would be in the form of an inflation-indexed annuity. Distributions would be made only at normal retirement age, early retirement age (as determined under current Social Security rules), or the date on which the individual's account assets, plus the traditional Social Security benefit, are sufficient to provide a monthly payment over life expectancy that is at least equal to the poverty line. To the extent that assets exceed this amount, more liberal distribution rules would apply. The legislation also would implement a series of changes to the traditional Social Security benefit that would reduce the benefit over time. These include: (1) gradually raising the retirement age; (2) reducing amounts paid to spousal beneficiaries; (3) increasing the number of computation years used to determine benefits; (4) modifying the formula on which benefits are calculated; and (5) modifying the cost-of-living adjustment applied to benefits. Attached are explanatory materials distributed by the bill's sponsors. We will keep you informed of further developments. Matthew P. Fink President Attachment

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