INVESTMENT COMPANY INSTITUTE

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SOCIAL SECURITY ADVISORY COUNCIL REPORT RELEASED

January 14, 1997 TO: BOARD OF GOVERNORS No. 4-97 RE: SOCIAL SECURITY ADVISORY COUNCIL REPORT RELEASED ____ On January 6, 1996, the Social Security Advisory Council released its long-awaited report on the fiscal stability of Social Security. While the Council did not find any short-term financing problems surrounding the program, it did identify very serious long-term problems and posed a series of three possible solutions, none of which garnered the support of a majority of the Council membership. While one proposed option is designed to maintain the current structure of Social Security, the other two contain some version of an individual savings account (in addition to a Social Security benefit) as a means of expanding the potential value of a future beneficiarys benefits. The following is a brief summary of the three alternatives. Maintenance of Benefits Proposal. This approach, supported by six members of the Council, maintains the benefit structure of the Social Security essentially as it is now. However, this proposal recommends, after further study and examination, investing a substantial portion of the Trust Funds in the equity market. Individual Accounts Proposal. This option, supported by just two members of the Council, would solve the systems long range problems by reducing benefits for future retirees. It would also create a government-run mandatory individual investment program funded by increasing payroll taxes by 1.6%. Investment choices in these funds would be limited to bond or equity index funds, and at retirement, account balances would be converted to minimum guarantee indexed annuities. Personal Security Account Proposal. This approach, supported by five members of the Council, also makes use of mandatory individual accounts. An amount equal to 5% of the current 12.4% payroll tax would be invested in "Personal Security Accounts" with private sector firms. The shortfall to Social Security created by this 5% individual investment of funds would be met by a combination of increased taxes and the issuance of additional government bonds. Each of these individual investment proposals differs significantly from the voluntary 2% Personal Investment Plan (PIP) incorporated into the Simpson-Kerrey bill (S. 824) and supported by the Institute in the last Congress. Matthew P. Fink President