

**MEMO# 14234**

December 14, 2001

# **PRESIDENT'S SOCIAL SECURITY COMMISSION ISSUES REPORT; HOUSE OF REPRESENTATIVES RESOLUTION EXPRESSES NEED FOR REFORM**

[14234] December 14, 2001 TO: PENSION MEMBERS No. 38-01 PENSION OPERATIONS ADVISORY COMMITTEE No. 74-01 RE: PRESIDENT'S SOCIAL SECURITY COMMISSION ISSUES REPORT; HOUSE OF REPRESENTATIVES RESOLUTION EXPRESSES NEED FOR REFORM The President's Commission to Strengthen Social Security recently issued its "draft final report" entitled "Strengthening Social Security and Creating Personal Wealth for All Americans." As you are aware, the Commission was established by Executive Order earlier this year to develop recommendations that would modernize and restore fiscal soundness to the Social Security system.<sup>1</sup> The report sets forth three alternative reform models, all of which involve voluntary personal retirement accounts, intended to improve the fiscal condition of the current system. The three models, generally, are as follows: • Model 1 would allow workers to direct 2 percent of their payroll taxes into a personal account. In exchange, the individual's traditional Social Security benefits would be offset by the worker's personal account contributions compounded at an interest rate of 3.5 percent above inflation. This model does not specify other changes to the Social Security system's benefit and revenue structure to address long-term fiscal problems. • Model 2 would allow workers to redirect 4 percent of their payroll taxes up to a maximum of \$1,000 to a personal account. In exchange for benefits generated by the personal account, traditional Social Security benefits would be offset by the amount of personal account contributions compounded at a real interest rate of 2 percent. Beginning in 2009, the model also would index benefits to price inflation, rather than national wage growth. General government revenues would be transferred to the Trust Fund to keep it solvent from 2025 to 2054. • Model 3 would allow workers to contribute 1 percent of wages into a personal account. If the worker does so, a 2.5 percent contribution (up to an annual maximum of \$1,000) from current payroll taxes also would be added to the account. For low-income workers, the voluntary contribution would be subsidized by rebating the amount 1 See Institute Memorandum to Pension Committee No. 28-01, dated May 3, 2001. 2 through a refundable tax credit. In exchange for the benefits generated by the individual accounts, traditional Social Security benefits would be offset by the amount of personal account contributions compounded at a real interest rate of 2.5 percent. General government revenues would make up the shortfall to keep Social Security solvent. House of Representatives Resolution. The House of Representatives, by a vote of 415 to 5, recently passed a resolution, H. Con. Res. 282, "Keeping the Social Security Promise Initiative." The resolution finds, among other things, that "deferring action to save Social Security will result in loss of public confidence in the

program.” The resolution also finds that “workers’ ability to save and invest for their own retirement will continue to be particularly important, especially for younger workers, to enhance their own retirement security.” In light of these and other findings, the resolution provides that it is the “sense of Congress” that the President’s Commission to Strengthen Social Security should present in its recommendations innovative ways to protect the American workers’ financial commitment to Social Security without lowering benefits or increasing taxes. Additionally, the President and Congress should join to develop legislation to strengthen Social Security as soon as possible. Such legislation should (1) recognize the obstacles faced by women in securing financial stability at retirement, (2) recognize the unique needs of minorities, and (3) guarantee promised benefits under current law, including cost of living adjustments that fully index for inflation, for current and future retirees, without increasing taxes. The introductory portions of the Commission’s report and the resolution as passed by the House are attached. The complete report can be found at: [http://csss.gov/reports/Draft\\_final\\_report.pdf](http://csss.gov/reports/Draft_final_report.pdf). Thomas T. Kim Associate Counsel Note: Not all recipients receive the attachment. To obtain a copy of the attachment, please visit our members website (<http://members.ici.org>) and search for memo 14234, or call the ICI Library at (202) 326-8304 and request the attachment for memo 14234. Attachment (in .pdf format)

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