Social Security Reform: Current Issues and Legislation

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January 15, 2009

Congressional Research Service
7-5700
www.crs.gov
RL33544

CRS Report for Congress
Prepared for Members and Committees of Congress

Summary

In recent years, an initiative by former President Bush to restructure Social Security through the creation of individual accounts moved Social Security reform to the forefront of the political debate. Although much attention has been focused on the issue, there has been no legislative action.

The spectrum of ideas for reform have ranged from relatively minor changes to the pay-as-you-go social insurance system enacted in the 1930s to a redesigned, “modernized” program based on personal savings and investments modeled after IRAs and 401(k)s. Proponents of the fundamentally different approaches to reform cite varying policy objectives that go beyond simply restoring long-term financial stability to the Social Security system—objectives that focus on improving the adequacy and equity of benefits as well as those that reflect different philosophical views about the role of the Social Security program and the federal government in providing retirement income. However, the system’s projected long-range financial outlook provides a backdrop for much of the Social Security reform debate in terms of the timing and degree of recommended program changes.

Currently, the Social Security system is generating surplus tax revenues. However, its board of trustees projects that the trust funds will be depleted in 2041, at which point an estimated 78% of benefits will be payable with incoming receipts (under the intermediate projections). The primary reason is demographics. Between 2010 and 2030, the number of people aged 65 and older is projected to increase by 75%, while the number of workers supporting the system is projected to increase by 8%. In addition, the trustees project that the system will begin running cash flow deficits in 2017, at which point other federal receipts will be needed to meet benefit costs. If there are no other surplus governmental receipts, policymakers would have three options: raise taxes or other income, reduce spending, or borrow.

Public opinion polls show that fewer than 50% of respondents are confident that Social Security can meet its long-term commitments. There is also a public perception that Social Security may not be as good a value for future retirees. These concerns, and a belief that the nation must increase national savings, have led to proposals to redesign the system. At the same time, others suggest that the system’s financial outlook is not a “crisis” in need of immediate action. Supporters of the current program structure point out that the system is now running surpluses, continues to have public support and could be affected adversely by the risk associated with some of the reform ideas. They contend that only modest changes are needed to restore long-range solvency to the Social Security system.

During the 109th Congress, 10 Social Security reform measures were introduced, most of which would have established individual accounts. During the 110th Congress, six Social Security reform measures were introduced, five of which would have established individual accounts. None of the measures received congressional action. This report will be updated as legislative activity warrants.

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Background

In recent years, an initiative by former President Bush to restructure Social Security through the creation of individual accounts moved Social Security reform to the forefront of the political debate. The former President advocated a pre-funded system in which benefits would be based increasingly on personal savings and investments through the creation of individual Social Security accounts. He pointed to the system's projected long-range funding shortfall as a driver for change in conjunction with his vision of an "ownership society." Most Democrats have supported maintaining the current program structure (i.e., a defined benefit system funded on a pay-as-you-go basis), pointing to the system's projected long-range financial outlook to support their view that the system is not in "crisis" and that only modest program changes may be needed.

Proponents of the fundamentally different approaches to reform (ranging from relatively minor changes to the current pay-as-you-go social insurance system to the creation of a "modernized" program based on personal savings and investments modeled after IRAs and 401(k)s) cite varying policy objectives that go beyond simply restoring long-term financial stability to the system—objectives that focus on improving the adequacy and equity of benefits as well as those that reflect different philosophical views about the role of the Social Security program and the federal government in providing retirement income. However, the system's projected long-range financial outlook provides a backdrop for much of the Social Security reform debate in terms of the timing and degree of recommended program changes. For example, one of the key criteria used to evaluate any reform proposal is its projected impact on the Social Security trust funds. To place the discussion of Social Security reform issues into context, this report looks first at the long-range projections for the Social Security trust funds, then at the various objectives and proposals for reform.

Currently, Social Security income exceeds outgo. However, the Social Security Board of Trustees (composed of three officers of the President's Cabinet, the Commissioner of Social Security, and two public representatives) projects that Social Security outgo will exceed income by 12% on average over the next 75 years.[1] In addition, the trustees project that the Social Security trust funds will be exhausted by 2041, at which point incoming receipts will cover an estimated 78% of program costs. One of the primary reasons is demographics. The first wave of the post-World War II baby boom generation began retiring in 2008 and projected increases in life expectancy will contribute to an older society. Between 2010 and 2030, the number of people aged 65 and older is projected to increase by 75%, while the number of workers whose taxes will finance future benefits is projected to increase by 8%. As a result, the number of workers supporting each Social Security recipient is projected to decline from 3.3 today to 2.1 in 2035.[2]

Social Security revenues are paid into the U.S. Treasury and most of the proceeds are used to pay benefits. Surplus revenues are invested in federal securities recorded to the Old-Age, Survivors, and Disability Insurance (OASDI) trust funds maintained by the Treasury Department.[3] Social Security benefits and administrative costs are paid out of the Treasury and a corresponding

[1] The 2008 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, March 25, 2008, available at [http://www.ssa.gov/OACT/TR/TR08/]. Trust fund projections cited in this CRS report are based on the trustees' 2008 intermediate, or mid-range, assumptions.

[2] For more information, please refer to CRS Report RL32981, *Age Dependency Ratios and Social Security Solvency*, by Laura B. Shrestha.

[3] OASDI is the formal name for Social Security.

amount of trust fund securities are redeemed. When current Social Security taxes are insufficient to pay benefits, the trust fund's securities are redeemed and Treasury makes up the difference with other receipts.

Currently, Social Security tax revenues exceed what is needed to pay benefits and administrative costs. Surplus tax revenues and interest credited to the trust funds in the form of government bonds appear as growing trust fund balances. Beginning in 2027, however, the system's outgo is projected to exceed total income (tax revenues plus interest income), and trust fund assets will begin to be drawn down. By 2041, the trust funds are projected to be exhausted and technically insolvent (see **Table 1** and **Figure 1**).

Beginning in 2017, the system's outgo is projected to exceed Social Security tax revenues (income excluding interest credited to the trust funds). With the emergence of *cash flow* deficits, the system will rely on interest credited to the trust funds to meet annual expenditures. Because interest credited to the trust funds is an exchange of credits between Treasury accounts (rather than a financial resource for the government from outside sources), other federal receipts will be needed to meet the system's costs. If there are no other surplus governmental receipts, policymakers would have three options: raise taxes, reduce spending, or borrow the money from the public (i.e., replace bonds held by the trust funds with bonds held by the public). The system's reliance on general revenues is projected to be about $77 billion by 2020 and $258 billion by 2030 (in constant 2008 dollars). Projected annual Social Security surpluses and deficits, as well as projected annual *cash flow* surpluses and deficits, are shown in **Table 1** and **Figure 2**.

Today, the annual cost of the system ($623.5 billion) is equal to 11.20% of workers' pay subject to Social Security payroll taxes (or taxable payroll). The trustees project that the system's costs will increase at a faster rate than tax income over the next several decades. Program costs are projected to increase sharply between 2010 and 2030 as the baby boom generation moves into retirement. As a share of taxable payroll, the cost of the system is projected to reach 12.62% in 2015, 14.14% in 2020, and 16.41% in 2030. Program costs are then projected to increase at a slower rate for about five years, reaching 16.84% of taxable payroll in 2035. Beyond 2035, program costs as a share of taxable payroll are projected to remain relatively stable for several decades before gradually increasing to 17.63% of taxable payroll in 2085. Over the 75-year projection period, the *average* cost of the system is projected to be 15.63% of taxable payroll, or 12% higher than *average* income. However, the gap between income and outgo is projected to increase over the period. In 2085, the cost of the system is projected to exceed income by 33%. As a share of Gross Domestic Product (GDP), program costs are projected to increase from 4.3% of GDP today to a peak of 6.1% of GDP in the 2030s. Over the following decade, program costs are projected to decline slightly as a share of GDP before stabilizing at about 5.8% of GDP for the remainder of the projection period.

The projected long-range financial outlook is reflected in public opinion polls that show fewer than 50% of respondents express confidence in Social Security's ability to meet its long-term commitments. There is a growing public perception that Social Security may not be as good a value in the future. Until recent years, retirees could expect to receive more in benefits than they paid in Social Security taxes. However, because Social Security tax rates have increased to cover the costs of the maturing "pay-as-you-go" system, these ratios have become less favorable. Such concerns, and a belief that the nation must increase national savings to meet the needs of an aging society, are among the factors behind reform efforts.

Supporters of the current program structure suggest that the issues confronting the system are not as serious as sometimes portrayed and believe there is no imminent crisis. They point out that the system is now running surpluses, that there continues to be public support for the program, and there would be considerable risk in some of the reform ideas. They contend that relatively modest changes could restore long-range solvency to the system.

Table 1. Projected Income and Outgo of the Social Security Trust Funds, Under Intermediate Assumptions, Calendar Years 2008-2040

(in billions of constant 2008 dollars)

	Tax Revenues	Interest Income	Total Income	Cost	Surplus/ Deficit[a]	Cash Flow Surplus/ Deficit[b]	Trust Fund Balance
2008	702.5	117.1	819.7	623.5	196.2	79.0	2,434.7
2009	728.9	122.6	851.5	643.9	207.6	85.0	2,582.8
2010	747.3	130.7	878.0	664.1	213.9	83.2	2,727.0
2011	763.1	139.5	902.6	686.7	215.9	76.4	2,868.6
2012	778.5	148.5	926.9	712.7	214.2	65.8	3,004.8
2013	793.5	157.0	950.5	741.6	208.9	51.9	3,131.8
2014	807.6	164.9	972.5	772.0	200.5	35.6	3,247.0
2015	821.8	172.0	993.8	803.3	190.5	18.5	3,349.1
2016	836.2	178.7	1,014.9	835.6	179.3	0.6	3,437.1
2017	**850.5**	**185.3**	**1,035.8**	**869.1**	**166.7**	***-18.6***	**3,510.1**
2018	865.1	190.5	1,055.6	902.3	153.3	*-37.2*	3,567.7
2019	879.6	194.9	1,074.5	936.4	138.1	*-56.8*	3,608.6
2020	894.2	198.3	1,092.6	971.1	121.5	*-76.9*	3,631.8
2021	908.8	200.8	1,109.6	1,005.3	104.3	*-96.5*	3,637.2
2022	923.4	202.4	1,125.7	1,039.0	86.7	*-115.6*	3,624.9
2023	938.0	201.1	1,139.1	1,072.9	66.2	*-134.9*	3,592.4
2024	952.9	198.8	1,151.7	1,106.7	45.0	*-153.8*	3,539.6
2025	967.9	195.3	1,163.2	1,140.2	23.0	*-172.3*	3,466.1
2026	983.1	190.8	1,173.8	1,173.4	0.4	*-190.3*	3,372.2
2027	**998.4**	**185.0**	**1,183.3**	**1,206.5**	***-23.2***	***-208.1***	**3,257.2**
2028	1,013.9	178.0	1,191.9	1,239.4	*-47.5*	*-225.5*	3,120.9
2029	1,029.8	169.9	1,199.7	1,272.0	*-72.3*	*-242.2*	2,963.6
2030	1,045.9	160.6	1,206.5	1,303.4	*-96.9*	*-257.5*	2,785.9
2031	1,062.4	150.3	1,212.7	1,334.0	*-121.3*	*-271.6*	2,588.8
2032	1,079.2	138.8	1,218.1	1,363.6	*-145.5*	*-284.4*	2,372.7
2033	1,096.5	126.4	1,222.8	1,391.9	*-169.1*	*-295.4*	2,139.0
2034	1,114.1	113.0	1,227.0	1,418.6	*-191.6*	*-304.5*	1,889.2
2035	1,131.8	98.7	1,230.5	1,444.1	*-213.6*	*-312.3*	1,624.3

	Tax Revenues	Interest Income	Total Income	Cost	Surplus/ Deficit[0]	*Cash Flow* Surplus/ Deficit[b]	Trust Fund Balance
2036	1,149.7	83.7	1,233.4	1,468.9	*-235.5*	*-319.2*	1,344.5
2037	1,168.0	67.8	1,235.7	1,493.0	*-257.3*	*-325.0*	1,050.6
2038	1,186.5	51.2	1,237.7	1,516.0	*-278.3*	*-329.5*	743.7
2039	1,205.5	33.8	1,239.4	1,538.1	*-298.7*	*-332.6*	424.8
2040[c]	1,224.8	15.9	1,240.7	1,559.6	*-318.9*	*-334.8*	94.3

Source: CRS, on the basis of data from The 2008 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, March 25, 2008, table VI.F7, available at http://www.socialsecurity.gov/OACT/TR/TR08/lr6f7.html.

a. The annual surplus/deficit is equal to total income minus cost.

b. The annual *cash flow* surplus/deficit is equal to tax revenues minus cost.

c. The Social Security trust fund is projected to be exhausted in 2041.

Figure 1. Projected Social Security Surpluses/Deficits, Under Intermediate Assumptions of the 2008 Trustees Report, Calendar Years 2008-2040

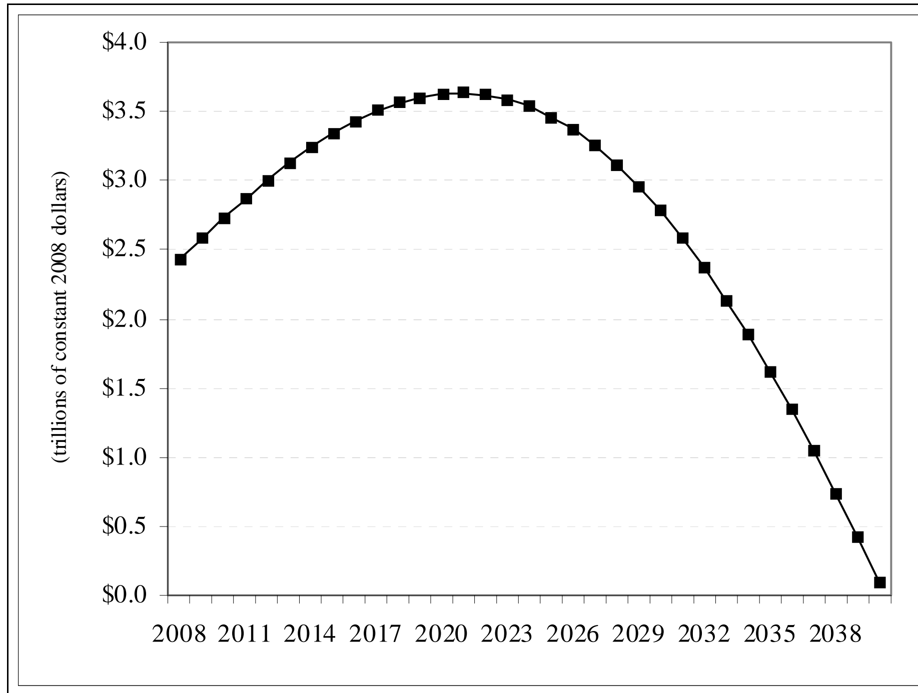
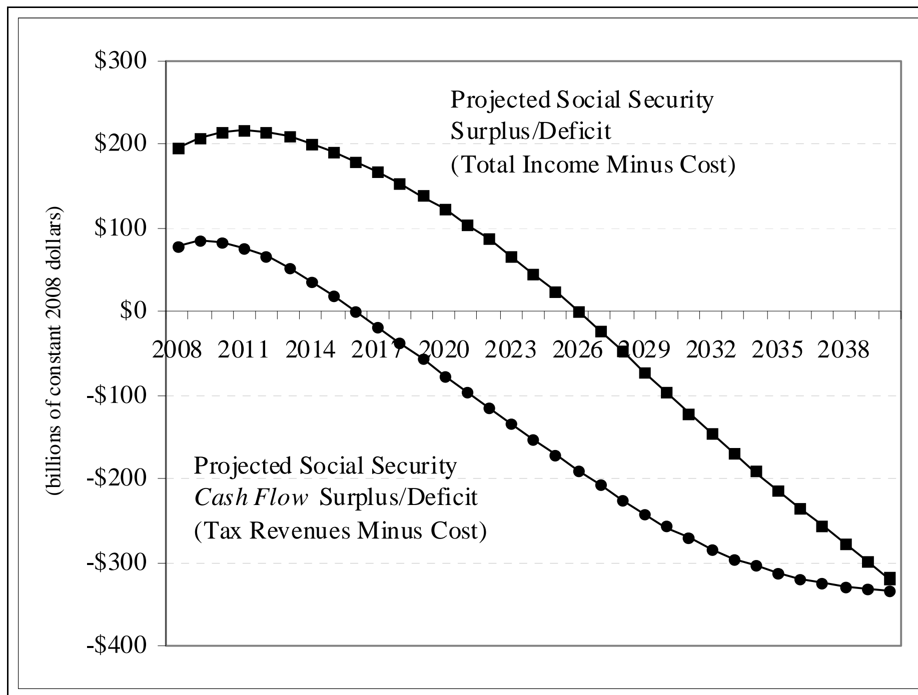


Figure 2. Projected Social Security Surpluses/Deficits, Under Intermediate Assumptions of the 2008 Trustees Report, Calendar Years 2008-2040



Source: Figures are based on data from *The 2008 Annual Report of the Board of Trustees 123of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, March 25, 2008.

Basic Debate

The Social Security system has faced funding shortfalls in the past. In 1977 and 1983, Congress enacted a variety of measures to address the system's financial imbalance. These measures include constraints on the growth of initial benefit levels, a gradual increase in the full retirement age from 65 to 67 (i.e., the age at which unreduced benefits are payable), payroll tax increases, taxation of benefits for higher-income recipients, and extension of Social Security coverage to federal and nonprofit workers. Subsequently, projections showed the re-emergence of long-term deficits as a result of changes in actuarial methods and assumptions, and because program changes had been evaluated with respect to their effect on the *average* 75-year deficit. That is, while program changes were projected to restore trust fund solvency on average over the 75-year period, a period of surpluses was followed by a period of deficits.

Some policymakers believe that some type of action should be taken sooner rather than later. This view has been shared by the Social Security trustees and other panels and commissions that have examined the issue. In recent years, a wide range of interest groups have echoed this view in testimony before Congress. However, there is no consensus on whether the projections represent a "crisis." In 1977 and 1983, the trust fund balances were projected to fall to zero within a very short period (within months of the 1983 reforms). Today, the problem is perceived to be as few as 9 or as many as 33 years away. Lacking a "crisis," the pressure to compromise is diffused and the issues and the divergent views about them have led to myriad complex proposals. In 1977 and 1983, the debate was not about fundamental reform. Rather, it revolved around how to raise the system's income and constrain costs. Today, the ideas range from restoring the system's solvency with as few alterations as possible to replacing it entirely with something modeled after IRAs or 401(k)s. This broad spectrum was reflected in the 1997 Social Security Advisory Council report, which presented three different reform plans. None of the plans was supported by a majority of the 13-member council. Similar diversity is reflected in the Social Security reform bills introduced in recent Congresses.

Push for Major Reform

Advocates of reform view Social Security as an anachronism, built on depression-era concerns about high unemployment and widespread "dependency" among the aged. They see the prospect of reform today as an opportunity to "modernize" the way society saves for retirement. They maintain that the vast economic, social and demographic changes that have transpired over the past 70 years require the system to change, and they point to changes made in other countries that now use market-based individual accounts to strengthen retirement incomes and bolster their economies by spurring savings and investments. They believe government-run, pay-as-you-go systems are unsustainable in aging societies. They prefer a system that allows workers to acquire wealth and provide for their retirement by investing in individual accounts.

Reform advocates also view it as a way to counter skepticism about the current system by giving workers a greater sense of "ownership" of their retirement savings. They contend that private investments would yield larger retirement incomes because stocks and bonds historically have provided higher returns than are projected from the current system. Some believe that individual accounts would address what they view as the system's contradictory mix of insurance and social welfare goals (although benefits are not based strictly on a worker's contributions, many of its social benefits go to financially well-off individuals in the absence of a means test). Others maintain that creating a system of individual accounts would prevent the government from using

surplus Social Security taxes for other government spending. Recent stock market declines, however, may make investment-based proposals less popular among some policymakers in the near term.

Some, who do not necessarily seek a new system, view enactment of long-range Social Security constraints as one way to curb federal entitlement spending. The aging of society means that the cost of entitlement programs that aid the elderly will increase greatly in the future. The costs of the largest entitlement programs (Social Security, Medicare and Medicaid) are directly linked to an aging population. Proponents of imposing constraints on these programs express concern that, if left unchecked, their costs would place pressure on the federal budget far into the future, consuming resources that could be used for other priorities and forcing future generations to bear a much higher tax burden.

As a matter of fairness, it has been pointed out that many current recipients get back more than the value of their Social Security contributions, and far more than the baby boom generation will receive. They believe that to delay making changes to the program is unfair to current workers, who must pay for "transfer" payments that they characterize as "overgenerous" and unrelated to need, while facing the prospect that their own benefits may have to be scaled back severely. Others emphasize the system's projected long-range funding shortfall and contend that steps should be taken soon (e.g., raising the full retirement age, constraining the growth of initial monthly benefits for future retirees, reducing COLAs, raising taxes) so that changes can be phased in, allowing workers more time to adjust their retirement expectations and plans to reflect what these programs will be able to provide in the future. They maintain that otherwise more abrupt changes in taxes and benefits would be required.

Arguments for Retaining the Existing System

Those who favor a more restrained approach believe that the issues facing the system can be resolved with modest tax and spending changes, and that the program's critics are raising the specter that Social Security will "bankrupt the nation" to undermine public support and provide an excuse to incorporate individual accounts into the system. They contend that individual savings accounts would erode the social insurance nature of the current system that favors low-income workers, survivors and the disabled.

Others are concerned that switching to a new system of individual accounts would pose large transition problems by requiring younger workers to save for their own retirement while paying taxes to cover benefits for current retirees. Some doubt that it would increase national savings, arguing that higher government debt (resulting from the redirection of current payroll taxes to individual accounts) would offset the increased individual account savings. They also contend that the capital markets' inflow created by the accounts would make the markets difficult to regulate and potentially distort equity valuations. They point out that some of the countries that have moved to individual accounts did so to create capital markets. Such markets, they argue, are already well developed in the United States.

Some believe that a system of individual accounts would expose participants to excessive market risk for an income source that has become essential to many of the nation's elderly. They say that the nation has a three-tiered retirement system (consisting of Social Security, private pensions and personal assets) that already includes private savings and investment components. They contend that while people may be willing and able to undertake some "risk" in the latter two tiers, Social Security (as the tier that provides a basic floor of protection) should be more stable. They further

contend that the administrative costs of maintaining individual accounts could be very large and significantly erode the value of the accounts.

Some say that concerns about the future growth of entitlement spending are overblown, arguing that as people live longer, they will work longer as labor markets tighten and employers offer inducements for them to remain on the job. They state that a projected low ratio of workers to dependents is not unprecedented, as it existed when the baby boomers were in their youth.

Specific Areas of Contention

System's Financial Outlook

There are conflicting views about the severity of Social Security's projected funding shortfall. Some maintain that the problem is more acute than portrayed under the traditional 75-year projections that show an average 75-year deficit equal to 1.70% of taxable payroll ($4.3 trillion in present value terms).[4] They believe this view is supported by an alternative portrayal in the trustees' report that extends the projections indefinitely into the future. On an "infinite horizon" basis, the projected funding shortfall is equal to 3.2% of taxable payroll ($13.6 trillion in present value terms). They also point out that, in 2030, the cost of the system is projected to exceed income by 3.2% of taxable payroll (costs are projected to exceed income by 24%) and that, in 2085, the cost of the system is projected to exceed income by 4.3% of taxable payroll (costs are projected to exceed income by 33%). Therefore, on a pay-as-you-go basis, the system would require more than a 12% change in taxes or expenditures over the next 75 years to cover projected program costs (over the next 75 years, on average, the cost of the system is projected to exceed income by 12%).

They maintain that viewing the problem as 33 years away (the trust funds are projected to have a balance until 2041) does not take into account the pressure Social Security will exert on the federal budget beginning in 2017 when annual cash flow deficits are projected to emerge and the system begins to rely on interest credited to the trust funds to meet annual expenditures. At that point, the government would have to rely on other resources to help cover program costs, resources that could be used to finance other governmental functions.[5]

Others express concern that the problem is being exaggerated. They maintain that, in contrast to earlier episodes of financial imbalance, the system has no immediate problem: surplus tax receipts are projected for 8 years and the trust funds are projected to have a positive balance for 32 years. They state that projections for the next 75 years, let alone the indefinite future, cannot be viewed with any significant degree of confidence and that Congress should respond to the projections with caution. They point out that, even if the 75-year projections hold, the average

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[4] The corresponding value is $4.7 trillion in present value terms if the target trust fund balance equal to 100% of annual cost by the end of the period is included.

[5] The trust fund projections cited in this CRS report are based on the 2008 annual report of the Social Security Board of Trustees. Projections released by the Congressional Budget Office (CBO) in August 2008 reflect a similar long-range outlook for the Social Security trust funds. CBO projects that the trust funds will be exhausted in 2046, and that Social Security expenditures will exceed tax revenues beginning in 2019. For more information, please refer to CBO, *Updated Long-Term Projections for Social Security*, August 2008, available at http://cbo.gov/ftpdocs/96xx/doc9649/08-20-SocialSecurityUpdate.pdf.

imbalance could be eliminated by increasing the payroll tax rate immediately by 0.85 percentage point on employees and employers each. While acknowledging that the cost of the system is projected to represent a notably larger share of GDP in the future (increasing from 4.3% of GDP today to a peak of 6.1% of GDP in the 2030s), they point out that GDP itself would have risen substantially in real terms. Moreover, while the ratio of workers to recipients is projected to decline, they believe that employers are likely to respond with inducements for older workers to stay on the job longer. Phased-in retirements are becoming more prevalent, and some older workers are viewing retirement increasingly as more than an all-or-nothing decision.

Public Confidence

In recent years, public opinion polls have shown that a majority of Americans lack confidence in the system's ability to meet its future commitments. Although skepticism abated following enactment of legislation in 1983 to shore up the system, it has risen again with just over half of the public expressing a lack of confidence (*CBS News/New York Times Poll*, June 2005). Younger workers are particularly skeptical. For example, 62% of persons aged 18-34, 56% of persons aged 35-44, and 49% of persons aged 45-54 expressed a lack of confidence in the system's ability to pay benefits scheduled under current law in the future, compared with 16% of persons aged 55 and older (*Newsweek Poll*, February 2005). In a more recent poll in which respondents were asked to describe the current financial situation of Social Security, 66% said the system is in "crisis" (30%) or in "serious trouble" (36%). Another 26% said the system is in "some trouble," 5% said the system is "not in trouble," and 3% said they are "unsure" (CBS News Poll, October 2007).[6]

Some observers express caution about inferring too much from polling data, arguing that public understanding of Social Security is limited and often inaccurate. They maintain that a major reason confidence is highest among older persons is that they have learned more about Social Security because they are more immediately affected by the program. Some believe that the annual statements provided by the Social Security Administration will make workers more aware of their estimated future benefits scheduled under current law and thus more trusting of the system. Others, however, suggest that the skepticism is justified by the system's repeated financial difficulties and diminished "money's worth" for younger workers.

Doubts About Money's Worth

Until recent years, Social Security recipients received more, often far more, than the value of the Social Security taxes they paid. However, because Social Security tax rates have increased over the years and the full retirement age (the age at which unreduced benefits are payable) is being increased gradually, it is becoming more apparent that Social Security will be less of a good deal for many future retirees. For example, for workers who earned average wages and retired in 1980 at age 65, it took 2.8 years to recover the value of the retirement portion of the combined employee and employer shares of their Social Security taxes plus interest. For their counterparts who retired at age 65 in 2003, it will take 17.4 years. For those retiring in 2020, it will take 21.6 years. Some observers believe these discrepancies are inequitable and cite them as evidence that the system needs to be substantially restructured.

[6] Polling results are from PollingReport.com at [http://www.pollingreport.com/social.htm].

Others discount this phenomenon, viewing Social Security as a *social insurance* program serving social ends that transcend questions of whether some individuals fare better than others. For example, the program's anti-poverty features replace a higher proportion of earnings for lower-paid workers and provide additional benefits for workers with families. In addition, current workers, who will receive less direct value from their taxes compared to current retirees, have in large part been relieved from having to support their parents, and many elderly are able to live independently and with dignity. These observers contend that the value of these aspects of the program is not reflected in comparisons of taxes and benefits.

Debate Over Individual Accounts

Social Security's projected long-range financial outlook, skepticism about the sustainability of the current system, and a belief that economic growth could be bolstered through increased savings have led to a number of proposals to incorporate individual accounts into the Social Security system, reviving a debate that dates back to the creation of the program in 1935. All three plans presented by the 1994-1996 Social Security Advisory Council featured program involvement in the financial markets. The first called upon Congress to consider authorizing investment of part of the Social Security trust funds in equities (on the assumption that stocks would produce a higher return to the system). The second would require workers to contribute an extra 1.6% of pay to individual accounts to make up for Social Security benefit reductions called for under the plan to restore the system's long-range solvency. The third would redesign the system by gradually replacing Social Security retirement benefits with flat-rate benefits based on length of service and individual accounts (funded with 5 percentage points of the current Social Security tax rate).[7]

The reform that Chile enacted in 1981, which replaced a troubled pay-as-you-go system with one requiring workers to invest part of their earnings in individual accounts through government-approved pension funds, has been reflected in a number of reform bills introduced in recent Congresses.[8] These measures would permit or require workers to invest some or all of their Social Security payroll taxes in individual accounts. Most call for future Social Security benefits to be reduced or forfeited. Similarly, the three options presented by the Social Security reform commission appointed by former President Bush in 2001 would allow workers to participate in individual accounts and would reduce their future Social Security benefit by the projected value of the account based on an assumed (rather than the actual) rate of return.[9]

Another approach is reflected in bills that would require any budget surpluses to be used to finance individual accounts to supplement Social Security benefits for those who pay Social Security payroll taxes. Former President Clinton's January 1999 reform plan would have allocated a portion of budget surpluses to individual accounts, supplemented by a worker's own contributions and a government match (scaled to income). In addition, the plan would have

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[7] *Report of the 1994-1996 Advisory Council on Social Security, Volume I: Findings and Recommendations*, Wash., DC, January 1997.

[8] For more information on the reforms in Chile and other countries, please refer to Congressional Budget Office, *Social Security Privatization: Experiences Abroad*, January 1999, available at http://www.cbo.gov/ftpdocs/10xx/doc1065/ssabroad.pdf; and CRS Report RL34006, *Social Security: The Chilean Approach to Retirement*, by Christopher Tamborini.

[9] *Strengthening Social Security and Creating Personal Wealth for All Americans*, Final Report of the President's Commission to Strengthen Social Security, December 21, 2001, available at http://www.csss.gov/reports/Final_report.pdf.

redirected a portion of budget surpluses, or the interest savings resulting therefrom, to the Social Security trust funds. Some of the funds would have been used to acquire stocks, similar to the approach suggested in one of the Advisory Council plans and some past legislation. Most of these approaches would require establishment of an independent board to invest some of the funds in stocks or corporate bonds and the remaining funds in federal securities.

Some individual account proponents believe that individual accounts would reduce future financial demands on government and reassure workers by giving them a sense of "ownership" of their retirement savings. Others believe that individual accounts would enhance workers' retirement income because stocks and bonds generally have provided higher rates of return than are projected from Social Security. In conjunction with this, they maintain that individual accounts would increase national savings and promote economic growth. Others maintain that individual accounts would prevent the government from using surplus Social Security revenues to "mask" public borrowing, or for other spending or tax reductions. Generally, proponents of individual accounts express concern that "collective" investment of the Social Security trust funds in the markets would concentrate too much economic power in a government-appointed board.[10]

Opponents of individual accounts maintain that Social Security's projected long-range funding shortfall could be resolved without altering the fundamental nature of the program. They express concern that replacing Social Security with individual accounts would erode the social insurance aspects of the system that favor low-wage earners, survivors and the disabled. Others are concerned that individual accounts would pose large transition problems by requiring younger workers to save for their own retirement while simultaneously paying taxes to support current retirees, and would further exacerbate current budget deficits. Some doubt that individual accounts would increase national savings, maintaining that any increase in private savings would be offset by increased government borrowing. They also point out that the investment pool created by the accounts could be difficult to regulate and distort capital markets and equity valuations. Still others view it as exposing participants to excessive market risk for something as essential as core retirement benefits and, unlike Social Security, as providing poor protection against inflation. Many prefer "collective" investment of the Social Security trust funds in the markets to potentially bolster their returns and spread the risks of poor performance broadly.[11]

Retirement Age Issue

Raising the Social Security retirement age is often considered as a way to help restore long-range solvency to the system. Much of the projected growth in Social Security's costs is a result of projected increases in life expectancy. Since benefits were first paid in 1940, life expectancy for 65-year-old men and women has increased from 12.7 and 14.7 years, respectively, to 17.5 and 19.8 years, respectively. By 2030, it is projected to be 18.9 and 21.2 years, respectively. This trend bolstered arguments for increasing the full retirement age as a way to achieve savings when the system was facing major financial problems in the early 1980s. Congress raised the "full

[10] For examples of arguments in support of individual accounts, please refer to *Strengthening Social Security and Creating Personal Wealth for All Americans*, Final Report of the President's Commission to Strengthen Social Security, December 21, 2001, available at http://www.csss.gov/reports/Final_report.pdf, and a variety of sources available from the Cato Institute at http://www.socialsecurity.org/.

[11] For examples of arguments against individual accounts, please refer to the compilation of sources provided in *Social Security Issue Guide*, Economic Policy Institute, May 2005, available at http://www.epinet.org/issueguides/socialsecurity/socialsecurityissueguide.pdf.

benefit" age from 65 to 67 as part of the Social Security Amendments of 1983 (P.L. 98-21). The increase in the full retirement age enacted in 1983 is currently being phased in starting with persons born in 1938, with the full two-year increase affecting persons born in 1960 or later. The 1983 amendments did not raise the early retirement age (age 62). However, the benefit reduction for persons who retire at age 62 will increase from 20% to 30%. Proponents of increasing the early and/or full retirement age view it as reasonable in light of projected increases in life expectancy. Opponents believe it will penalize workers who already get a worse deal from Social Security compared to current retirees, persons who work in arduous occupations, and racial minorities and others who have shorter life expectancies.

Cost-of-Living Adjustments (COLA)

Social Security benefits are adjusted annually to reflect inflation as measured by the Bureau of Labor Statistics' (BLS) Consumer Price Index (CPI), which measures price increases for selected goods and services. The CPI has been criticized for overstating the effects of inflation, primarily because the index's market basket of goods and services was not revised regularly to reflect changes in consumer buying habits or improvements in quality. A BLS analysis in 1993 found that the annual overstatement may be as much as 0.6 percentage point. CBO estimated in 1994 that the overstatement ranged from 0.2 to 0.8 percentage point. A 1996 panel that studied the issue for the Senate Finance Committee argued that it may be 1.1 percentage points.[12] In response to its own analysis as well as outside criticisms, the BLS has since made various revisions to the CPI. To some extent, these revisions may account for part of the slower CPI growth in recent years. However, calls for adjustments continue.[13]

According to the Social Security Administration, a COLA reduction of 0.5 percentage point annually (beginning December 2009) would improve the system's long-range actuarial balance by an estimated 44%. A COLA reduction of 1 percentage point annually would improve the long-range actuarial balance by an estimated 84% (based on the trustees' 2008 intermediate projections).[14] While some view further CPI changes as necessary to help keep Social Security and other entitlement spending under control, others view such changes as a backdoor way of reducing benefits. They maintain that the market basket of goods and services purchased by the elderly is different from that of the general population around whom the CPI is constructed. It is more heavily weighted with healthcare expenditures, which rise notably faster than the overall CPI, and thus they contend that the cost of living for the elderly is higher than reflected by the CPI.[15]

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[12] *Toward a More Accurate Measure of the Cost of Living*, Final Report to the Senate Finance Committee from the Advisory Commission to Study the Consumer Price Index, December 4, 1996.

[13] For more information, please refer to CRS Report RL30074, *The Consumer Price Index: A Brief Overview*, by Brian W. Cashell, and CRS Report RL34168, *Automatic Cost of Living Adjustments: Some Economic and Practical Considerations*, by Brian W. Cashell.

[14] Social Security Administration, *Summary of Provisions That Would Change the Social Security Program*, dated July 16, 2008, available at http://www.ssa.gov/OACT/solvency/provisions/cola_summary.html.

[15] For more information, please refer to CRS Report RS20060, *A Separate Consumer Price Index for the Elderly?*, by Brian W. Cashell.

Social Security and the Budget

By law, Social Security is considered "off budget" for many aspects of developing and enforcing annual budget goals. However, it is a federal program and its income and outgo help shape the year-to-year financial condition of the federal government. As a result, policymakers often focus on "unified" (or overall) budget totals that include Social Security. When former President Clinton urged that the unified budget surpluses projected at the time be reserved until Social Security's projected long-range funding issues were resolved, and proposed using a portion of those surpluses to shore up the system, Social Security's budget treatment became a major issue. Congressional views about what to do with the surpluses were diverse, ranging from "buying down" publicly-held federal debt to cutting taxes to increasing spending. However, there was substantial support for setting aside a portion equal to the annual Social Security trust fund surpluses.

Although budget deficits have re-emerged, some congressional interest remains in the concept of a Social Security "lock box." For example, in the 109th Congress, H.R. 3435 (Savings for Seniors Act of 2005 introduced by Representative Blackburn) would have established a Social Security Surplus Protection Account in the OASI trust fund for the purpose of "holding" surplus Social Security tax revenues and would have established a Social Security Investment Commission to recommend alternative investment options for surplus Social Security funds. Under the measure, investment of funds held in the account would have been suspended pending enactment of legislation providing for trust fund investment in nongovernmental assets. S. 1730 (Truth in Budgeting Act of 2005 introduced in the 109th Congress by Senator Voinovich) would have established a Trust Fund Administration within the Treasury Department for the purpose of investing all federal trust fund revenues in nongovernmental debt instruments (such as municipal and corporate bonds) upon the issuance of special rate Treasury obligations to the trust funds (investment in stocks would have been prohibited). Under the measure, investment fund assets would have been used to redeem outstanding special rate Treasury obligations.

In the 109th Congress, Senator DeMint offered an amendment to the Senate budget resolution for FY2007 (S.Con.Res. 83) that would have allowed for the creation of a reserve fund for surplus Social Security tax revenues, provided that the Senate Finance Committee approve Social Security legislation that meets certain requirements. For example, the amendment (S.Amdt. 3087) specified that such legislation make no changes to Social Security benefits scheduled under current law for individuals born before 1950 and provide individuals with "the option to voluntarily obtain legally binding ownership of at least some portion of each participant's benefits." The amendment was defeated by a vote of 46-53.

In the 110th Congress, the FY2008 budget resolution (S.Con.Res. 21) passed by the Senate on March 23, 2007, included provisions aimed at "protecting" annual Social Security surpluses. The Senate-passed version of the budget resolution included a provision that would have created a new "Point of Order to Save Social Security First." The provision would have allowed a floor objection to be raised in the Senate against consideration of any legislation that would increase the *on-budget* deficit in any fiscal year (i.e., a deficit in the part of the federal budget that excludes Social Security and the Postal Service). The point of order could be raised against such legislation until the President submits legislation to Congress, and Congress enacts legislation, that would restore long-range solvency to the Social Security system (as scored by the Social Security Administration). The point of order could be waived with a three-fifths majority vote in the Senate. The Senate-passed version also included a provision ("Circuit Breaker to Protect Social Security") that would have provided a point of order against any budget resolution that

does not achieve an *on-budget* balance within five years, with exceptions provided for periods of war or low economic growth. The point of order could be waived with a three-fifths majority vote in the Senate. These provisions, however, were not included in the FY2008 budget resolution conference report (S.Con.Res. 21, H.Rept. 110-153) passed by the House and Senate on May 17, 2007.[16]

Initiatives for Change

The 1994-1996 Social Security Advisory Council presented three different approaches to restore long-range solvency to the system, none of which was endorsed by a majority of council members. The first (the "maintain benefits" plan) would maintain the system's current benefit structure by increasing revenues (including an eventual increase in the payroll tax) and making minor benefit reductions. It was also suggested that a portion of the Social Security trust funds be invested in stocks. The second (the "individual account" plan) addressed the problem mostly with benefit reductions, and would require workers to make an extra 1.6% of pay contribution to individual accounts. The third (the "personal security account" plan) proposed a major redesign of the system that would gradually replace the current earnings-related retirement benefit with a flat-rate benefit based on length of service and establish individual accounts funded by redirecting 5 percentage points of the current payroll tax. It would cover transition costs with an increase in payroll taxes of 1.52% of pay and government borrowing. The conceptual approaches incorporated in the three plans are reflected in many of the reform bills introduced in recent years.

During his last three years in office, former President Clinton repeatedly called for using Social Security's share of budget surpluses projected at the time to reduce publicly held federal debt and crediting the trust funds for the reduction.[17] In the 1999 State of the Union address, he proposed crediting $2.8 trillion of some $4.9 trillion in budget surpluses projected for the next 15 years to the trust funds—nearly $0.6 trillion was to be invested in stocks, the rest in federal securities. The plan was estimated to keep the system solvent until 2059. Concerns were raised that the plan would be crediting the Social Security trust funds twice for its surpluses, and that the plan would lead to government ownership of private companies. Former President Clinton further proposed that $0.5 trillion of the budget surpluses be used to create new Universal Savings Accounts—401(k)-type accounts intended to supplement Social Security benefits. In June 1999, he revised the plan by calling for general fund infusions to the trust funds equal to the interest savings achieved by using Social Security's share of the budget surpluses to reduce federal debt. The infusions were to be invested in stocks until the stock portion of the trust funds' holdings reached 15%. In October 1999, former President Clinton revised the plan again by dropping the stock investment idea and calling for all the infusions to be invested in federal bonds. Former President

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[16] During Senate floor consideration of S.Con.Res. 21 in March 2007, Senator DeMint offered an amendment (S.Amdt. 489) that would have allowed for the creation of a reserve fund for Social Security reform, provided that the Senate Finance Committee approve legislation that meets certain requirements. Among other requirements, the amendment specified that such legislation must ensure "that there is no change to current law scheduled benefits for individuals born before January 1, 1951" and must provide "participants with the benefits of savings and investment while permitting the pre-funding of at least some portion of future benefits." The amendment was defeated by a vote of 45 to 52. Senator DeMint offered a similar amendment to the FY2009 budget resolution (S.Con.Res. 70) on March 13, 2008. The amendment (S.Amdt. 4328) was defeated by a vote of 41 to 57.

[17] For more information, please refer to U.S. Congress, House Committee on Ways and Means, *The President's Social Security Framework*, hearing, 106th Cong., 1st sess., February 23, 1999, Serial 106-32 (Washington: GPO, 2000).

Clinton's last plan, offered in January 2000, was similar but again called for investing up to 15% of the trust funds in stock.

During his first term, former President Bush appointed a commission to make recommendations to reform Social Security. As principles for reform, he stated that any reform plan must preserve the benefits of current retirees and older workers, return Social Security to a firm financial footing, and allow younger workers to invest in individual savings accounts. The commission's final report, which was issued on December 21, 2001, included three reform options. Each option would allow workers to participate in individual accounts on a voluntary basis and reduce their future Social Security benefit by the projected value of the account based on an assumed (rather than the actual) rate of return.

The first option would allow workers to redirect 2% of taxable earnings to individual accounts and would make no other changes. The second option would allow workers to redirect 4% of taxable earnings, up to an annual limit of $1,000, to individual accounts; reduce initial benefits for future retirees by indexing the growth of initial benefits to prices rather than wages; and increase benefits for lower-wage workers and widow(er)s. The third option would allow workers to contribute an additional 1% of taxable earnings to individual accounts and receive a government match of 2.5% of taxable earnings, up to an annual limit of $1,000; reduce initial benefits for future retirees by slowing the growth of initial benefits to reflect projected increases in life expectancy, and, for higher-wage workers, by modifying the benefit formula; and increase benefits for lower-wage workers and widow(er)s.[18]

During his second term, former President Bush continued efforts to build support for Social Security reform. Although the former President did not present a detailed plan for reform, he put forth guidelines for Congress to consider in the development of legislation to create individual accounts within a program that he described as in need of "wise and effective reform." During the 2005 State of the Union address, former President Bush offered the following guidelines for reform: (1) workers born before 1950 (aged 55 and older in 2005) would not be affected by individual accounts or other components of reform; (2) participation in individual accounts would be voluntary; (3) eligible workers would be allowed to redirect up to 4% of covered earnings to an individual account, initially up to $1,000 per year; (4) accounts would be administered by a centralized government entity; and (5) workers would be required to annuitize the portion of the account balance needed to provide at least a poverty-level stream of life-long income, with any remaining balance available as a lump sum.

In addition to restating support for individual accounts as part of the creation of an "ownership society," former President Bush acknowledged that other changes would be needed to address the system's projected long-range funding shortfall. He cited potential program changes that would be on the table for consideration, including (1) raising the full retirement age; (2) reducing benefits for wealthy recipients; and (3) modifying the benefit formula. At the time, the only approach ruled out by former President Bush was an increase in the payroll tax rate.

On April 28, 2005, during a television news conference, former President Bush proposed a change in the Social Security benefit formula in which future "benefits for low-income workers

[18] For more information, please refer to CRS Report RL32006, *Social Security Reform: Effect on Benefits and the Federal Budget of Plans Proposed by the President's Commission to Strengthen Social Security*, by Dawn Nuschler and Geoffrey C. Kollmann.

[would] grow faster than benefits for people who are better off." Although details of the proposal were not released, a White House press statement indicated that the President was referring to a proposal similar to one put forth by Robert Pozen, a member of the 2001 *President's Commission to Strengthen Social Security* appointed by former President Bush. Mr. Pozen's proposal, known as "progressive indexing," would constrain the growth of initial benefits for future retirees by using a combination of wage indexing and price indexing mechanisms in the benefit formula (rather than wage indexing only) to apply differing degrees of benefit reduction based on the worker's level of earnings.[19] Under progressive indexing, lower-wage workers would receive a benefit that is indexed closer to wage growth (as under current law) and higher-wage workers would receive a benefit that is indexed closer to price growth (or inflation). Based on current wage and price growth projections, a shift from wage indexing toward price indexing would result in lower initial benefits for many future retirees compared to current law.[20]

As the first session of the 109th Congress came to a close at the end of 2005, the reform debate focused on legislation introduced by Senator DeMint (S. 1302) that would have established voluntary individual accounts funded with surplus Social Security tax revenues and reduced Social Security benefits to reflect account assets (S. 1302 is described in the following section of the report). On November 15, 2005, Senator Santorum made unanimous consent requests to discharge S. 1302 and a second measure (S. 1750, 109th Congress) from the Senate Finance Committee and bring those measures to the Senate floor for consideration. S. 1750, introduced by Senator Santorum, would have provided for the issuance of Social Security "benefit guarantee certificates" to persons born before 1950 for the stated purpose of "guaranteeing their right to receive Social Security benefits ... in full with an accurate annual cost-of-living adjustment." The unanimous consent requests provided for 10 hours of debate on each measure followed by a vote on passage, with no amendments. Objections raised against the unanimous consent requests prevented further action on the measures.[21]

During the 2006 State of the Union address, former President Bush expressed concern regarding the level of federal spending for entitlement programs, citing projections that Social Security, Medicare, and Medicaid would account for almost 60% of the federal budget by 2030. The former President called for the creation of a commission, that would include Members of Congress from both parties, to "examine the full impact of baby boom retirements on Social Security, Medicare, and Medicaid." In addition, former President Bush included in his *Fiscal Year 2007 Budget* a proposal for voluntary individual accounts funded with a portion of current payroll taxes similar to the one he outlined in the 2005 State of the Union address. The *Fiscal Year 2007 Budget* also restated the former President's support for a change in the Social Security benefit formula known as "progressive indexing" to constrain the growth of initial benefits for future retirees as a cost-saving measure.

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[19] For more information, please refer to *Testimony on Progressive Indexing* before the Senate Finance Committee, April 26, 2005, by Robert C. Pozen, available at http://finance.senate.gov/hearings/testimony/2005test/ptest042605.pdf, and CRS Report RL32900, *Indexing Social Security Benefits: The Effects of Price and Wage Indexes*, by Patrick Purcell, Laura Haltzel, and Neela K. Ranade.

[20] Under the trustees' 2008 intermediate projections, wages are projected to increase at an average annual rate of 3.9% over the 75-year projection period. By comparison, prices are projected to increase at an average annual rate of 2.8% over the period.

[21] For more information on S. 1302, please refer to CRS Report RS22278, *Social Security Reform: Growing Real Ownership for Workers (GROW) Act of 2005, H.R. 3304*, by Kathleen Romig. For more information on S. 1750, please refer to CRS Report RL32822, *Social Security Reform: Legal Analysis of Social Security Benefit Entitlement Issues*, by Kathleen S. Swendiman and Thomas J. Nicola.

Immediately following the November 2006 congressional elections, in which Democrats gained a majority in both the House and the Senate, former President Bush and Administration officials publicly expressed interest in resuming discussions with congressional leaders on the issue of Social Security reform. In the *Fiscal Year 2009 Budget*, former President Bush restated support for voluntary individual accounts funded with a portion of current payroll taxes. Under his proposal, starting in 2013, individual accounts would be funded with 4% of taxable earnings, up to a limit of $1,400 (the contribution limit would increase by $100 more than average wage growth each year through 2018). The former President also restated support for "progressive indexing" of initial Social Security benefits for future retirees.

Legislation Introduced in the 109th Congress

During the past several Congresses, a number of Social Security reform bills have been introduced, many of which would have established individual accounts within the Social Security system either on a voluntary or mandatory basis. In the 109th Congress, 10 Social Security reform bills were introduced as follows: H.R. 440 (Kolbe and Boyd), H.R. 530 (Sam Johnson), H.R. 750 (Shaw), H.R. 1776 (Paul Ryan), H.R. 2472 (Wexler), H.R. 3304 (McCrery), S. 540 (Hagel), S. 857 (Sununu), S. 1302 (DeMint), and S. 2427 (Bennett). All but two of the measures (H.R. 2472 and S. 2427) would have established individual accounts to supplement or replace traditional Social Security benefits, among other changes. This section provides a summary of Social Security reform legislation introduced in the 109th Congress, with the exception of H.R. 530, H.R. 750, S. 540 and H.R. 2472. These measures, which were re-introduced in the 110th Congress, are included in the section that follows ("Legislation Introduced in the 110th Congress"). Despite intense debate on the issue of Social Security reform in the 109th Congress, there was no congressional action on Social Security reform legislation.[22]

H.R. 440. Representatives Kolbe and Boyd introduced H.R. 440 (Bipartisan Retirement Security Act of 2005) on February 1, 2005. For workers under age 55, the measure would have redirected 3% of the first $10,000 of covered earnings (indexed to wage growth) and 2% of remaining covered earnings to mandatory individual accounts. Workers would have been allowed to make additional contributions of up to $5,000 annually (indexed to inflation), and lower-wage workers would have been eligible for an additional credit of up to $600 toward their account.

With respect to traditional Social Security benefits, the measure would have made a number of benefit computation changes, including several adjustments to the "replacement factors" used in the benefit formula. It would have constrained the growth of initial monthly benefits for future retirees by indexing initial benefits to increases in life expectancy, a provision known as "longevity indexing" of benefits. The measure would have modified the calculation of the worker's "average indexed monthly earnings" (AIME) for benefit computation purposes. In the future, the worker's AIME would have been based on the worker's average career earnings—counting all years of earnings divided by a 40-year computation period (rather than the worker's average career earnings, counting the 35 years of highest earnings divided by a 35-year computation period).

[22] More detailed descriptions and estimates of the financial effects of these proposals are available from the Social Security Administration, Office of the Chief Actuary, at http://www.ssa.gov/OACT/solvency/index.html.

In addition, the measure would have accelerated the increase in the full retirement age from 65 to 67 scheduled under current law, so that it would have reached age 67 for persons born in 1956 or later (four years earlier than under current law). It would have modified the early retirement reduction factors and delayed retirement credits; set widow(er)s' benefits equal to 75% of the couple's combined pre-death benefit (rather than 50%-67%); limited benefits for aged spouses of higher earners; provided a minimum benefit tied to the poverty level for workers who meet specified coverage requirements; and reduced cost-of-living adjustments.

With respect to tax changes, the measure would have increased the taxable wage base gradually so that 87% of covered earnings would be taxable. It would have credited all revenues from the taxation of Social Security benefits to the Social Security trust funds (instead of crediting part to the Medicare Hospital Insurance trust fund).

H.R. 440 would have established a central authority to administer the accounts and provided initial investment options similar to those available under the Thrift Savings Plan for federal employees. Once the account balance reached $7,500 (indexed to inflation), the worker would have been allowed to choose among a broader range of centrally-managed investment options. The account would have become available at retirement, or earlier if the account balance were sufficient to provide a payment at least equal to 185% of the poverty level. The worker would have been required to annuitize the portion of the account balance needed to provide a combined monthly payment (traditional benefit plus annuity) at least equal to 185% of the poverty level. Any remaining balance could have been taken as a lump sum.

H.R. 3304. Representative McCrery introduced H.R. 3304 (Growing Real Ownership for Workers Act of 2005) on July 14, 2005. The measure, which is similar to S. 1302, would have established voluntary individual accounts for workers born after 1949 (workers would have been enrolled automatically in the individual account system and given the option to disenroll). Individual accounts would have been funded with general revenues in amounts equal to surplus Social Security tax revenues from 2006 to 2016, the period during which surplus tax revenues are projected under current law.

H.R. 3304 would have established a central authority to administer the accounts. Initially, funds would have been invested in long-term Treasury bonds. Beginning in 2009, additional investment options may have been made available. The account would have become available at retirement, or in the event of the worker's death. At retirement, the worker would have been required to annuitize the portion of the account balance needed to provide a combined monthly payment (traditional benefit plus annuity) at least equal to the poverty level. Any remaining balance could have been taken as a lump sum. For account participants, traditional Social Security benefits would have been offset by an amount equal to the annuity value of a hypothetical (or "shadow") account assumed to have earned, on average, a 2.7% real rate of return. (The assumed rate of return for the hypothetical account was based on the projected ultimate real rate of return for the Social Security trust funds (3% on average) minus 0.3 percentage point to reflect administrative expenses.) The measure would have made no other changes to traditional Social Security benefits.

S. 857/H.R. 1776. Senator Sununu introduced S. 857 (Social Security Personal Savings Guarantee and Prosperity Act of 2005) on April 20, 2005. Representative Paul Ryan introduced a

companion measure (H.R. 1776) on April 21, 2005.[23] The measures would have allowed workers under age 55 to redirect a portion of payroll taxes to voluntary individual accounts (workers would have been enrolled automatically in the individual account system and given the option to disenroll). From 2006 to 2015, workers would have been allowed to redirect 5% of covered earnings up to a base amount ($10,000 in 2006, indexed to wage growth thereafter) and 2.5% of remaining covered earnings to individual accounts. Beginning in 2016, workers would have been allowed to redirect 10% of covered earnings up to the base amount and 5% of remaining covered earnings to the accounts. Workers participating in individual accounts would have been issued a "benefit credit certificate" (or recognition bond) to reflect the value of benefits accrued under the traditional system. The recognition bond would have been redeemable at retirement, though the value of accrued benefits would have been reduced to reflect the payroll taxes redirected to the worker's account. The measures would have provided account participants a combined monthly payment (traditional benefit plus annuity) at least equal to benefits scheduled under current law. Workers choosing not to participate in individual accounts would have received traditional Social Security benefits.

The measures would have provided 6 indexed investment accounts, including a default "lifecycle investment account" with an expected average investment mix of 65% equities/35% fixed income instruments. Once the worker's account balance reached $25,000 (indexed to inflation), additional investment options would have become available. At retirement, the worker would have been required to annuitize the portion of the account balance needed to provide a combined monthly payment (traditional benefit plus inflation-indexed annuity) at least equal to benefits scheduled under current law. Any excess balance could have been withdrawn in a manner chosen by the worker. Pre-retirement distribution would have been allowed if the account balance were sufficient to provide an annuity at least equal to a required minimum payment. The measures also included several financing provisions that would have constrained future growth rates for federal spending and dedicated the savings to Social Security; "reserved" annual Social Security cash flow surpluses for Social Security purposes; and dedicated a portion of projected corporate tax revenue increases to Social Security.

S. 1302. Senator DeMint introduced S. 1302 (Stop the Raid on Social Security Act of 2005) on June 23, 2005. The measure would have established voluntary individual accounts for workers born after 1949 (workers would have been enrolled automatically in the individual account system and given the option to disenroll). Individual accounts would have been funded with surplus Social Security tax revenues from 2006 to 2016, the period during which surplus tax revenues are projected under current law. Given the redirection of surplus Social Security tax revenues to individual accounts, the measure would have provided for general revenue transfers to the trust funds in amounts needed to maintain trust fund solvency based on current-law projections.

S. 1302 would have established a central authority to administer the accounts. Initially, funds would have been invested in long-term Treasury bonds. Beginning in 2008, additional investment options may have been made available. The account would have become available at retirement, or in the event of the worker's death. At retirement, the worker would have been required to annuitize the portion of the account balance needed to provide a combined monthly payment (traditional benefit plus annuity) at least equal to the poverty level. Any remaining balance could

[23] H.R. 1776 (109th Congress) includes provisions similar to H.R. 6110 (110th Congress) discussed in the section that follows ("Legislation Introduced in the 110th Congress").

have been taken as a lump sum. For account participants, traditional Social Security benefits would have been offset by an amount equal to the annuity value of a hypothetical (or "shadow") account assumed to have earned, on average, a 2.7% real rate of return. (The assumed rate of return for the hypothetical account was based on the projected ultimate real rate of return for the Social Security trust funds (3% on average) minus 0.3 percentage point to reflect administrative expenses.) The measure would have made no other changes to traditional Social Security benefits.

S. 2427. Senator Bennett introduced S. 2427 (Sustainable Solvency First for Social Security Act of 2006) on March 16, 2006. The measure would have modified the benefit formula to provide "progressive indexing" of initial Social Security benefits for future retirees. Progressive indexing applies a combination of wage indexing and price indexing to the benefit formula that, under current projections, would result in lower benefits for workers with earnings above a certain level (with larger reductions for relatively higher earners) compared to current law. The measure would have further constrained the growth of initial Social Security benefits for future retirees by indexing initial benefits to increases in life expectancy, a provision known as "longevity indexing" of benefits. It would have accelerated the increase in the full retirement age (from 65 to 67) being phased-in under current law so that the full retirement age would have reached 67 for persons born in 1955 or later (five years earlier than under current law). The measure would have provided general revenue transfers to the Social Security trust funds as needed to maintain adequate trust fund balances.

Legislation Introduced in the 110th Congress

During the 110th Congress, six Social Security reform bills were introduced: H.R. 1090 (Social Security Guarantee Plus Act of 2007), H.R. 2002 (Individual Social Security Investment Program Act of 2007), H.R. 4181 (Securing Medicare and Retirement for Tomorrow Act of 2007), S. 2765 (Saving Social Security Act of 2008), H.R. 5779 (Social Security Forever Act of 2008) and H.R. 6110 (Roadmap for America's Future Act of 2008). H.R. 1090 (which is similar to H.R. 750 in the 109th Congress) would have established voluntary individual accounts funded with general revenues, among other program changes. H.R. 2002 (which is similar to H.R. 530 in the 109th Congress), H.R. 4181, S. 2765 (which is similar to S. 540 in the 109th Congress) and H.R. 6110[24] would have established individual accounts funded with a redirection of current payroll taxes, among other program changes. H.R. 5779 (similar to H.R. 2472 in the 109th Congress) would have increased Social Security revenues by requiring workers and employers each to contribute 3% of earnings above the Social Security taxable wage base (in addition to current-law payroll tax contributions). There was no congressional action on these measures, which are summarized below.

H.R. 1090. Representative Ron Lewis introduced H.R. 1090 (Social Security Guarantee Plus Act of 2007) on February 15, 2007. The measure would have allowed workers aged 18 and older (who have been assigned a Social Security Number) to participate in voluntary individual accounts funded with general revenues. Account contributions would have been equal to 4% of taxable earnings, up to a limit of $1,000 (the limit would have been indexed to wage growth).

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[24] H.R. 6110 (110th Congress) included provisions similar to H.R. 1776 (109th Congress) discussed in the preceding section ("Legislation Introduced in the 109th Congress").

With respect to traditional Social Security benefits, the measure would have provided up to five years of earnings credits for workers who stay at home to care for a child under age seven and eliminated the earnings test for recipients below the full retirement age. In addition, it would have set widow(er)'s benefits equal to 75% of the couple's combined pre-death benefit (compared to 50%-67% under current law); allowed widow(er)s to qualify for benefits based on a disability regardless of age and the time frame in which the disability occurred; and lowered the Social Security spousal/widow(er)'s benefit reduction under the Government Pension Offset from two-thirds to one-third of the individual's pension from noncovered employment.

Under H.R. 1090, accounts would have been administered by private financial institutions selected by the government. The measure would have provided three initial investment options with specified allocations in equities and corporate bonds (60/40, 65/35, 70/30). The account would have become available upon the worker's entitlement to retirement or disability benefits, or upon the worker's death. Upon benefit entitlement, the worker would have received a lump sum equal to 5% of the account balance. The remaining balance would have been used to finance all or part of the worker's benefit. The account balance would have been withdrawn gradually and transferred to the trust funds for the payment of monthly benefits. In addition to the 5% lump sum, the measure would have provided a monthly payment equal to the higher of a benefit scheduled under current law and an annuity based on 95% of the account balance.

H.R. 2002. Representative Sam Johnson introduced H.R. 2002 (Individual Social Security Investment Program Act of 2007) on April 23, 2007. The measure would have established individual accounts funded with 6.2 percentage points of the current Social Security payroll tax. Participation in the individual account system would have been voluntary for workers aged 22 to 54 (in 2007) and mandatory for younger individuals. Workers participating in the individual account system would no longer have accrued benefits under the current system and would have been issued a marketable "recognition bond" equal to the value of benefits already accrued. The measure would have provided workers participating in the individual account system a minimum benefit equal to a specified percentage of the poverty level, up to 100% for workers who have at least 35 years of earnings.

Workers choosing not to participate in the individual account system would have remained in the current system, however, initial monthly benefits would have been lower than those scheduled under current law. The measure would have constrained the growth of initial monthly benefits for future retirees by indexing initial benefits to price growth (rather than wage growth), a provision known as "price indexing" of benefits.

H.R. 2002 would have established a central authority to administer the accounts and provided at least three initial investment options with specified allocations in equities and fixed income instruments (government bonds and corporate bonds), including a default 60/40 investment mix. Once the account balance reached $10,000 (indexed to inflation), the worker would have been allowed to transfer the balance to a private financial institution. The account would have become available at retirement (i.e., at the Social Security full retirement age), or earlier if the account balance were sufficient to provide an annuity at least equal to 100% of the poverty level. In the case of pre-retirement account distribution, the worker would have received an annual rebate of future payroll tax contributions (the employer share of the payroll tax would not have been subject to rebate). The worker would have been required to annuitize the portion of the account balance needed to provide an annuity at least equal to 100% of the poverty level. Any remaining balance could have been taken as a lump sum. At retirement, if the account balance were not

sufficient to provide the prescribed minimum payment, a supplemental payment would have been made to the account from general revenues.

H.R. 4181. Representative Jeff Flake introduced H.R. 4181 (Securing Medicare and Retirement for Tomorrow Act of 2007) on November 14, 2007. Among other provisions, the measure would have established individual accounts funded with 6.2 percentage points of the current Social Security payroll tax. Participation in the individual account system would have been mandatory for workers below the Social Security full retirement age. At retirement, workers would have been allowed to choose between a Social Security retirement benefit (Part A retirement benefit payable to workers and spouses) and a retirement distribution from the individual account (Part B benefit). Part A retirement benefits would have been phased-out over time. Individuals reaching retirement age after a 42-year period following enactment of the bill would not have had the option of choosing Part A retirement benefits.[25]

The worker's individual account would have been maintained by the employer and contributions would have been invested in a qualified Social Security mutual fund. Workers would have designated an investment fund from among five qualified Social Security mutual funds selected by the employer.

H.R. 4181 would have established a Social Security Escrow Fund within the U.S. Treasury. The fund would have included securities held by the Social Security trust fund (the Old-Age and Survivors Insurance and the Disability Insurance trust funds combined), 6.2 percentage points of the current Social Security payroll tax, Medicare Hospital Insurance (HI) payroll taxes, and amounts appropriated for the Supplemental Security Income (SSI) program, among other funding sources.[26] Amounts held in the Social Security Escrow Fund would have been available for the payment of various types of Social Security benefits—including Part A retirement benefits, benefits payable to a worker's family members (such as children and surviving spouses), disability benefits, and lump-sum death benefits—as well as for the payment of SSI benefits. In addition, transfers would have been made from the fund to the Medicare HI trust fund in the amount of Medicare Part A benefits.

The measure would have established the Personal Accounts Management and Review Board as an independent agency within the executive branch of the government. Among other duties, the board would have operated the Social Security Escrow Fund and designated and regulated qualified Social Security mutual funds. The Secretary of the Treasury would have served as managing trustee of the Social Security Escrow Fund.

S. 2765. Senator Hagel introduced S. 2765 (Saving Social Security Act of 2008) on March 13, 2008. Senator Hagel introduced S. 2765 (Saving Social Security Act of 2008) on March 13, 2008. The measure would have allowed workers born in 1963 or later (workers aged 45 or younger in 2008) to redirect 4 percentage points of the current Social Security payroll tax to an individual account (known as a SAFE account). Eligible workers would have been enrolled automatically in the individual account system and allowed to waive their eligibility for a SAFE account.

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[25] The measure also would have made changes to the Medicare program in connection with the establishment of Social Security individual accounts.

[26] If an individual elected to receive Part A retirement benefits (in lieu of Part B benefits), the qualified Social Security mutual fund in which the individual's account contributions were invested would have been required to transfer the amount of the individual's Part B benefits to the Social Security Escrow Fund.

With respect to traditional Social Security benefits, the measure would have constrained the growth of initial benefits for future retirees by indexing initial benefits to increases in life expectancy, a provision known as "longevity indexing" of benefits. In addition, the measure would have increased the full retirement age from 67 to 68 for persons born in 1963 or later and increased the early retirement reduction factors. For workers participating in the individual account system, traditional Social Security benefits would have been offset by an amount equal to the annuity value of a hypothetical (or "shadow") account assumed to earn a 3% real rate of return. The measure would have provided a minimum "primary insurance amount" (basic benefit amount before any adjustments for early or delayed retirement) up to 135% of the poverty level for workers with 35 years of Social Security-covered employment (lower percentages would have applied to workers with fewer years of coverage).

The bill would have established a central authority to administer the individual accounts and provided initial investment options such as those offered by the Thrift Savings Plan for federal employees. The individual account would have become available at retirement, or in the event of the worker's death. Upon entitlement to benefits, the worker would have been required to annuitize the portion of the account balance needed to provide a combined monthly payment (traditional benefit plus annuity) at least equal to 135% of the poverty level. Any remaining balance could have been withdrawn in a manner chosen by the worker.

H.R. 5779. Representative Wexler introduced H.R. 5779 (Social Security Forever Act of 2008) on April 10, 2008. The measure would have increased Social Security revenues by requiring workers and employers each to contribute 3% of earnings above the Social Security taxable wage base, in addition to payroll tax contributions paid under current law. Under current law, workers and employers each contribute 6.2% of covered earnings, up to a limit (known as the Social Security taxable wage base). The taxable wage base, which increases each year according to average wage growth, is $106,800 in 2009. Earnings up to the taxable wage base (i.e., earnings on which contributions are paid) are credited for benefit computation purposes.

Under Wexler's proposal, workers and employers each would have been required to contribute 3% of earnings *above* the taxable wage base, in addition to the 6.2% of earnings *up to* the taxable wage base payable under current law. Earnings above the taxable wage base taxed at the 3% rate would not have been credited for benefit computation purposes.

H.R. 6110. Representative Paul Ryan introduced H.R. 6110 (Roadmap for America's Future Act of 2008) on May 21, 2008, to provide for the reform of health care, the Social Security system, the tax code for individuals and businesses, and the budget process. Title IV of the bill (Social Security Personal Savings Guarantee and Prosperity Act of 2008) would have allowed workers born in 1954 or later (workers under age 55 in 2008) to redirect a portion of payroll taxes to voluntary individual accounts (workers would have been enrolled automatically in the individual account system and given the option to disenroll). From 2011 to 2020, workers would have been allowed to redirect 2% of covered earnings up to a base amount ($10,000 in 2011, indexed to wage growth thereafter) and 1% of remaining covered earnings to an individual account. The amount of Social Security contributions that could be redirected to an individual account would have increased over time. From 2021 to 2030, workers would have been allowed to redirect 4% of covered earnings up to the base amount and 2% of remaining covered earnings. From 2031 to 2040, workers would have been allowed to redirect 6% of covered earnings up to the base amount and 3% of remaining covered earnings. For calendar years after 2040, workers would have been allowed to redirect 8 %of covered earnings up to the base amount and 4% of remaining covered earnings to an individual account.

Workers participating in individual accounts would have been issued a "benefit credit certificate" to reflect the value of benefits accrued under the traditional system. The benefit credit certificate would have been redeemable at retirement, though the value of accrued benefits would have been reduced to reflect the payroll taxes redirected to the worker's individual account. The measure would have provided account participants a monthly payment at least equal to the minimum level of benefits they would have received under the traditional system (subject to changes to the system). Workers choosing not to participate in the individual account system would have received traditional benefits.

The measure would have provided six indexed investment accounts, including a default "lifecycle investment account." Once the worker's account balance reached a specified threshold ($25,000 in 2011, indexed to inflation thereafter), additional investment options would have become available. The account would have become available at retirement, or earlier if the account balance were sufficient to provide an annuity at least equal to 150% of the poverty line. At retirement, the worker would have been required to annuitize the portion of the account balance needed to provide a monthly payment at least equal to 150% of the poverty line, and any excess balance could have been withdrawn in a manner chosen by the worker. If the account balance were not sufficient to provide the minimum level of benefit payments guaranteed under the proposal, the government would have made up the difference. Any funds remaining in the account at the time of the individual's death would have been payable to designated beneficiaries or to the individual's estate.

Among other changes, the measure would have modified the benefit formula to provide "progressive price indexing" of initial Social Security benefits for future retirees (the change would have applied to workers under age 55 in 2008). Progressive price indexing applies a combination of wage indexing and price indexing to the benefit formula that results in lower projected benefits for workers with earnings above a certain level (with larger benefit reductions for relatively higher earners) compared to current law. In addition, the measure would have accelerated the increase in the full retirement age (FRA) scheduled under current law so that the FRA would have reached 67 for persons born in 1959 (one year earlier than under current law) and further increased the FRA for persons born in subsequent years to reflect projected increases in life expectancy.

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