Soc. Sec. Commission

R's talking about issue
SS advisory council — not officially out —
but effectively out.

Josh
Mr Gotbaum —
Mr Cutter
Mr. Mazurik
Steph.
Ellen Seidman
Barbara Chow?
Gene

- What is out there we have to react to --
- IRA set aside?
- Released middle or end of March.

Ken Apfel
3 diff camps. Long term shortfall - 2% payroll
1/3 CPI
1/3 growth (~~priv fund investment~~)

Bob Ball's — proposes least Δ in structure
- assumes 1/2 % ↓ in CPI estimate (all do)
— private investment piece
- Portion of
- Move revenues from HI ~~back~~ into OASDI, keeping SS —

Gramlich — Lower CPI
- 1.6% payroll tax - and tier SS for private investment.
- grad ↑ in retirement age
— little "pip" plan - private

"Weaver"
3rd - big "PIP" - more
plan
— 5% of 12.4 could go into
private savings fund —
— new tax = 1% GNP ~2% payroll
— grad ↑ retirement age

Consensus to Do Fast
CPI (to .3)
extend cov. state and local workers
take out hiatus in retirement age. —

35-38 years

Extends to 2055

Aerlin — may make general point — can close 2%
gap w/out major structural changes.

Eileen Sidman — but there will be rate of return issue "glaring"

5 notes - Support continuing to adjust SSI —
(w/adjustor
- No ~~provision~~ means-testing — i.e. consensus that
SS. must continue to be broad-based
but Δ in taxation of benefits / % inclusion.

- any future changes should tilt in favor of lower-wage / non-working surviving spouses.
(although tax % cuts against)

- All prop. leave early ret. age to 62
but little/big PIP move to 68

- bring in S/local employees.

Josh - Weaver proposal
Moving $ into IRA's - ↑ deficit by 1% GDP in 1998
(no more unified budget)

- "Liberty tax" - no details

Gramlich - suppose you put payroll tax at 12 -
- on top of that 1.6% forced IRA savings -

Dr Munnell - Bob Ball's plan -
- large administrative issues -
- would have to keep gov at arms length of indiv. investment decisions -
- Effects on markets? stockholders happy when investing not disinvesting -
- ↑ nominal deficit
- ↑ market price bonds
- lowers price of stocks.

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Andy — Brian Gin, SSA

20-Feb-1996 02:02pm

TO: Carol H. Rasco

FROM: Molly Brostrom
Domestic Policy Council

CC: Jeremy D. Benami
CC: Elizabeth E. Drye

SUBJECT: SocSec Adv Cncl--summary memo

I spoke to Gene and got a bit of background on the meeting. He's going to draft an agenda and run it by me; essentially, the meeting will be a presentation of the various options and attempt to develop a response (or non-response).

Summarized below are key points on the Social Security Advisory Council (including points Saturday NYTimes article and last e-mail).

Advisory Council Make Up
The Council was announced by Secretary Shalala June 9, 1994. As required by statute, membership of the Advisory Council is bipartisan and encompasses a wide range of views on Social Security. Key players include:

? Bob Ball--Commissioner of Social Security, 1962-73 (protect current structure, universal system)
? Jerry Shea, Gloria Johnson, and George Kourpias--all affiliated with the AFL-CIO (protect current, universal system)
? Fidel Vargas--25-year old mayor of Baldwin Park, CA ("Lead or Leave" type--younger people who don't believe SocSec will be there for them)
? Carolyn Weaver--American Enterprise Institute
? Edward Gramlich, director of the Institute of Public Policy Studies at the University of Michigan, is chair of the Council (trying to build consensus)

Options being considered

1. Retain current system with incremental changes, including change in CPI and one percent increase in SS payroll tax as fail safe down the road. Would allow part of SSTrust Fund to be invested by government in stock market index funds.

-Bob Ball proposal

-Sylvester Schieber proposal
-Forbes has suggested privatization; Dole initially attacked as "radical untested plan that would end SocSec as we know it
-Cons: moves away from universal program, to a safety net; risk of stock market is on individuals (Wall Street is of course very interested in privatization because of potentially huge new investment dollars); nonworking women would have no entitlement ot personal saving account of husbands, particular problem for women who divorce or outlive husbands;
-pros: Give people sense of ownership, increased confidence in SocSec

3. Halfway proposal -- Create private investment account for individuals beyond current level; to improve long-term financial status of SocSec, would scale back retirement benefits for hi-wage workers and graudally increase age of eligibility for benefits.

-Gramlich proposal
-cons: private investment account could be seen as new tax

In NYTimes, Gene was quoted as saying that the Administration has opposed efforts to "privatize Social Security", but would review the recommendations.

-SocSec now invested solely in government securities

-Pros: Historically, stocks have yielded almost triple the return of long-term govt bonds; would maintain universal system, supported by core senior constituencies

-Cons: Risk of stock market; significant investment by government could give Federal officials leverage over private companies; involves changes in CPI and possible new tax

2. Two-tier system that would require only half of the current 10% SocSec payroll tax to go into SS system, and would cut the benefit sharply to a flat $375 for all (about half of today's average benefit). The other 5% points would be given to worker to invest in his or her own 401(k) or IRA, creating a second tier of benefits (privatization).