E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

25-Oct-1996 03:08pm

TO: BROSTROM_M
TO: BROSTROM_M

FROM: Desiree G. Filippone

SUBJECT: TSP

Message Creation Date was at 25-OCT-1996 15:03:00

I just wanted to get back to you with a number on how much the TSP pays Barclays for investing the TSP money. The general estimate is around $8 million. THis is for $10 billion in TSP investments. These numbers are rough and shouldn't be quoted without caveats. I am still trying to refine this. It is not crystal clear to me from the Budget what is exactly included in the $8 million. I will keep you posted when I find things out. If this number holds, this is about 0.08 percent of the program investments. Not very much.

I still haven't decided what I am wearing in the marathon. I am thinking I will wear a navy blue t-shirt with yellow letters spelling Michigan. Look for that!

Talk to you later.

CURRENT LAW

1. Old-Age Benefit

The primary insurance amount (PIA) is computed under a three-bracket formula that favors low-paid workers -- 90% of the first $426 of average indexed monthly earnings (AIME), plus 32% of AIME over $426 and up to $2,567, plus 15% of AIME over $2,567. The dollar amounts ("bend points") are adjusted annually to reflect increases in average wages in the economy, as measured by the average wage index.

The computation period is the number of years after 1950--or age 21, if later--up to the year the worker reaches age 62, becomes disabled, or dies, minus the number of so-called "dropout years." In retirement and death cases, 5 years are dropped from this period of expected work. In no case are less than 2 years, or more than 35 years, used to measure lifetime earnings.

2. Spouse/Survivor Benefit

The spouse of a retired or disabled worker, upon reaching age 62, is eligible to receive a benefit based on 50 percent of the worker's primary benefit, subject to reduction for early retirement and subject to the maximum family benefit limitation. If the spouse is eligible for a worker's benefit on his or her own record, the amount of the spouse's benefit is reduced by the amount of the worker's benefit. If that worker's benefit equals or exceeds the spouse's benefit, then no spouse's benefit is payable.

The widow(er) of a retired or disabled worker, upon reaching age 60, is eligible to receive a benefit based on 100 percent of the worker's primary benefit, subject to reduction for early retirement and the maximum family benefit. If the deceased worker had elected reduced benefits, the widow(er)'s benefit is limited to the amount the deceased worker would be getting if still alive.

3. Retirement Ages

The NRA is 65 for workers who reach age 62 before the year 2000 (born before 1938). Beginning with workers who attain age 62 in the year 2000, the NRA increases 2 months per year until the NRA becomes age 66 for workers who attain age 62 in the year 2005. The NRA remains age 66 for workers who attain age 62 in the years 2005-2016 (the "hiatus"). Beginning with workers who attain age 62 in the year 2017, the NRA will again increase 2 months per year until the NRA becomes age 67 for workers who attain age 62 in the year 2022 and later (born in 1960 and later).

Retired workers and aged spouses retiring now at age 62 (the Earliest Eligibility Age - EEA) receive 80 percent and 75 percent, respectively, of the basic amounts otherwise payable at age 65. Widow(er)s retiring at age 60 (the EEA for widow(er)s), generally receive 71.5 percent of the worker's primary benefit. Under the currently-scheduled increase in the NRA to age 67, the percentages at the EEA will ultimately become 70 percent for workers and 65 percent for spouses, but will remain at 71.5 percent for widow(er)s at age 60.

4. Disability Benefit

Disability beneficiaries on the rolls are converted to retirement benefits at the Normal Retirement Age (NRA). The benefits are equal to 100 percent of the PIA, the same amount that is paid to a retired worker who becomes entitled to benefits at the NRA.

5. Individual Accounts

No provision in current law for individual accounts under the Social Security program.

6. Earnings Inclusion

See Old-Age Benefit above

7. Payroll Taxes

Most income to the Old-Age, Survivors, and Disability Insurance (OASDI) Trust Funds consists of taxes paid by employers, employees, and the self-employed on earnings covered by the OASDI program. The OASDI tax rate is 6.2 percent for employers and employees (each) and 12.4 percent for the self-employed. The HI tax rate is 1.45 percent for employers and employees (each) and 2.9 percent for the self-employed.

8. Taxable Earnings Base

Taxes for the OASDI program are paid on earnings up to $61,200 for 1995. Prior to 1994, HI taxes were also paid on earnings up to a maximum annual amount, but now are paid on total covered earnings, without limitation.

The base is automatically raised each year based on a formula that reflects increases in average wages. The Average Wage Index (AWI) is the average amount of total wages for each year after 1950, including wages in noncovered employment and wages in covered employment in excess of the OASDI contribution and benefit base (total wages in a year divided by the number of workers).

9. Benefits Taxation

Up to 50 percent of Social Security benefits are includable in taxable income for individuals with income $25,000-$34,000 and couples, $32,000-$44,000. Up to 85 percent of benefits are taxable for individuals with income exceeding $34,000 and for couples with income exceeding $44,000.

The proceeds from taxation of up to 50 percent of benefits are credited to the Social Security trust funds. The proceeds from taxation of 51 to 85 percent of benefits are credited to the Medicare Hospital Insurance (HI) Trust Fund.

10. COLA/CPI

Social Security benefits are increased automatically in December using the Bureau of Labor Statistics' Consumer Price Index for Wage Earners and Clerical Workers (CPI-W). The latest COLA of 2.8 percent became payable in January 1995.

11. Investment Policy

A portion of the trust funds not required to meet current costs may be invested. Investment of the funds must be made only in interest-bearing obligations of the US or guaranteed as to principal and interest by the US.

12. Coverage of State & Local Workers

State and local government employees who are under a retirement system may be covered under Social Security (and Medicare) through voluntary agreements between each State and the Secretary of HHS. (However, those who are not under a retirement system are covered mandatorily under Social Security and Medicare.) State and local government employees hired after March 31, 1986, are mandatorily covered under Medicare.

GRAMLICH PLAN

1. Old-Age Benefit

(A) Benefit related to years of service--$499 (1995 value) for full career (35 yrs). 10 yrs of work gets a 50% benefit. Over 10 yrs increases benefit by 2%/yr. Benefit amount wage-adjusted each year for new eligibles. Earnings-related benefit of 15% lifetime covered earnings (indexed to computation yr) computed like current law (averaging period would lengthen with increase in EEA). Benefit price-adjusted as under current law. 40-year phase-in period of new formula, 1998-2037.

(B) Alternatively, substitute a "two-bracket" PIA variant: 90% of first $640, plus 15% above $640.

2. Retirement Ages

Eliminate "hiatus" and raise NRA at current law rate of 1 month per year until age 68 in 2035. Afterwards, NRA indexed at rate of 1 month every two years to maintain current ratio of life expectancy to NRA. Similarly raise EEA to age 65 in 2035 and stop. A "bridge" annuity would be available for gap between 62 and EEA under the optional 1-4% "buy-back."

3. Spouse/Survivor Benefit

Spouse would receive half of $499 basic benefit if less than 10 years of earnings.

Survivor--higher of: 75% combined couples benefit or 100% survivor's own benefit or 100% of decedent's benefit.

4. Disability Benefit

Benefits computed using double-decker formula and not to exceed benefit payable at EEA--eventually 80% of PIA by 2035. Would decline further with NRA increases after 2035. Conversion age is higher of 65 or EEA. Insurance requirement would be similar to current law.

5. Individual Accounts

Persons may "buy-back" reductions in benefits within Social Security by contributing 1-4% earnings above current 6.2% payroll tax. Monies excluded from income tax, collected through withholding, credited to individual account recorded by SSA, investment earnings non-taxable & distributions taxed. Alternative investment in large mutual fund or competing funds.

[Schieber/Vargas variant - Persons under 40 optionally could divert some fraction of payroll tax to individual accounts managed by SSA conditional on: 1) participation in add-on plan with person contributing minimum amount--government matches from payroll contribution; and, 2) person agrees to future benefit cuts to reflect diversion into individual account.]

6. Earnings Inclusion

Include all earnings in numerator without increasing denominator in benefit calculation (Fierst Plan).

7. Payroll Taxes

No change from current law.

8. Taxable Earnings Base

No change from current law.

9. Benefit Taxation

Same as Bob Ball plan.

10. COLA/CPI

No change from current law.

11. Investment Policy

Same as Bob Ball plan.

12. Coverage of State & Local Workers

Same as Bob Ball plan.

BALL PLAN -goal/result?

1. Old-Age Benefit

Increase the AIME computation period from 35 to 38 yrs of earnings by 1999.

2. Retirement Ages

Eliminate "hiatus" in NRA increase.

3. Spouse/Survivor Benefit

No change from current law.

4. Disability Benefit

No change from current law.

5. Individual Accounts

No provision.

6. Earnings Inclusion

Computation period extended from 35 to 38 years.

7. Payroll Taxes

Increase OASDI payroll tax 0.2 percentage points each for employer & employee (from 6.2% to 6.4% each) in 1998. "Fail-safe" increase of 1% each employer & employee in 2060, if Trust Fund out of balance.

8. Taxable Earnings Base

Increase the base by $10,000 in two $5,000 steps in 1998 and 1999.

9. Benefit Taxation

Apply taxpayer's income tax rate to part of benefit that exceeds what worker paid in applied to couples with income above $32,000 and singles above $25,000. Return all proceeds of this tax to OASDI Trust Funds.

10. COLA/CPI

No change from current law.

11. Investment Policy

As Trust Funds increase with proposed changes, over 15 years move to invest 1/3 in equities indexed to broad market & 1/6 in corporate bonds. Assumes real rate of return of 3.8 percent.

12. Coverage of State & Local Workers

Cover under Social Security all newly-hired State & local workers after 1997 not now in a retirement system coordinated with Social Security.

ADVISORY COUNCIL ON SOCIAL SECURITY[6]

SEC. 706. [42 U.S.C. 907] (a) During 1969 (but not before February 1, 1969) and every fourth year thereafter (but not before February 1 of such fourth year), except as provided in subsection (e), the Secretary shall appoint an Advisory Council on Social Security for the purpose of reviewing the status of the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, the Federal Hospital Insurance Trust Fund, and the Federal Supplementary Medical Insurance Trust Fund in relation to the long-term commitments of the old-age, survivors, and disability insurance program and the programs under parts A and B of title XVIII, and of reviewing the scope of coverage and the adequacy of benefits under, and all other aspects of, these programs, including their impact on the public assistance programs under this Act.

(b) Each such Council shall consist of a Chairman and 12 other persons, appointed by the Secretary without regard to the provisions of title 5, United States Code, governing appointments in the competitive service. The appointed members shall, to the extent possible, represent organizations of employers and employees in equal numbers, and represent self-employed persons and the public.

(c)(1) Any Council appointed hereunder is authorized to engage such technical assistance, including actuarial services, as may be required to carry out its functions, and the Secretary shall, in addition, make available to such Council such secretarial, clerical, and other assistance and such actuarial and other pertinent data prepared by the Department of Health and Human Services as it may require to carry out such functions.

(2) Appointed members of any such Council, while serving on business of the Council (inclusive of travel time), shall receive compensation at rates fixed by the Secretary, but not exceeding $100 per day and, while so serving away from their homes or regular places of business, they may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by section 5703 of title 5, United States Code, for persons in the Government employed intermittently.

(d) Each such Council shall submit reports (including any interim reports such Council may have issued) of its findings and recommendations to the Secretary not later than January 1 of the second year after the year in which it is appointed, and such reports and recommendations shall thereupon be transmitted to the Congress and to the Board of Trustees of each of the Trust Funds. The reports required by this subsection shall include—

(1) a separate report with respect to the old-age, survivors, and disability insurance program under title II and of the taxes imposed under sections 1401(a), 3101(a), and 3111(a) of the Internal Revenue Code of 1954[7],

(2) a separate report with respect to the hospital insurance program under part A of title XVIII and of the taxes imposed by sections 1401(b), 3101(b), and 3111(b) of the Internal Revenue Code of 1954, and

[6] See Vol. II, P.L. 92-463, §§2-15, with respect to provisions governing the operation of advisory committees.
[7] See P.L. 83-591, §1401 (this volume).

(3) a separate report with respect to the supplementary medical insurance program established by part B of title XVIII and of the financing thereof.

After the date of the transmittal to the Congress of the reports required by this subsection, the Council shall cease to exist.

(e) No Advisory Council on Social Security shall be appointed under subsection (a) in 1985 (or in any subsequent year prior to 1989).

GRANTS FOR EXPANSION AND DEVELOPMENT OF UNDERGRADUATE AND GRADUATE PROGRAMS

SEC. 707. [42 U.S.C. 908] (a) There is authorized to be appropriated $5,000,000 for the fiscal year ending June 30, 1969, and $5,000,000 for each of the three succeeding fiscal years, for grants by the Secretary to public or nonprofit private colleges and universities and to accredited graduate schools of social work or an association of such schools to meet part of the costs of development, expansion, or improvement of (respectively) undergraduate programs in social work and programs for the graduate training of professional social work personnel, including the costs of compensation of additional faculty and administrative personnel and minor improvements of existing facilities. Not less than one-half of the sums appropriated for any fiscal year under the authority of this subsection shall be used by the Secretary for grants with respect to undergraduate programs.

(b) In considering applications for grants under this section, the Secretary shall take into account the relative need in the States for personnel trained in social work and the effect of the grants thereon.

(c) Payment of grants under this section may be made (after necessary adjustments on account of previously made overpayments or underpayments) in advance or by way of reimbursement, and on such terms and conditions and in such installments, as the Secretary may determine.

(d) For purposes of this section—

(1) the term "graduate school of social work" means a department, school, division, or other administrative unit, in a public or nonprofit private college or university, which provides, primarily or exclusively, a program of education in social work and allied subjects leading to a graduate degree in social work;

(2) the term "accredited" as applied to a graduate school of social work refers to a school which is accredited by a body or bodies approved for the purpose by the Commissioner of Education or with respect to which there is evidence satisfactory to the Secretary that it will be so accredited within a reasonable time; and

(3) the term "nonprofit" as applied to any college or university refers to a college or university which is a corporation or association, or is owned and operated by one or more corporations or associations, no part of the net earnings of which inures, or may lawfully inure, to the benefit of any private shareholder or individual.

DELIVERY OF BENEFIT CHECKS

SEC. 708. [42 U.S.C. 909] (a) If the day regularly designated for the delivery of benefit checks under title II or title XVI falls on a

FAX TRANSMITTAL # of pages ▶ 10
To B.Coyne From Nickerson
ASAP

NSN 7540-01-317-7368 GENERAL SERVICES ADMINISTRATION

HHS NEWS

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FOR IMMEDIATE RELEASE
Thursday, June 9, 1994

Social Security Administration
Phil Gambino (410) 965-8904

Stressing the importance of ensuring the long-term solvency and viability of this nation's Social Security program, HHS Secretary Donna E. Shalala today announced the appointment of the 1994 Advisory Council on Social Security.

"Each and every American citizen has a stake in the continued good health of this country's Social Security program," Secretary Shalala said. "This council, composed of leading experts in public and private pension systems in the United States, will examine some of the most challenging issues that go to the core of providing adequate and equitable income for the elderly in retirement."

By law, the advisory council, comprised of 12 members in addition to the chairman, is appointed every four years to examine issues affecting the Social Security Old-Age, Survivors, and Disability Insurance (OASDI) programs, as well as the Medicare program and Medicaid, which were created under the Social Security Act.

Unlike advisory councils of the 1980s which focused primarily on disability, Medicare and health-care issues, the 1994 council will focus on the Social Security OASDI program. Specifically, the secretary has asked the council to examine the following areas:

- Social Security financing, including developing recommendations for improving the long-range financial status of the OASDI program;

- More -

- The adequacy and equity of Social Security benefits paid to persons at various income levels, in various family situations, and various age cohorts, taking into account such factors as the increased labor participation of women, lower marriage rates, increased likelihood of divorce, and higher poverty rates of aged women; and

- The relative roles of the public and private sector in providing retirement income and how policies in both sectors affect the retirement decisions and economic well-being of individuals.

Secretary Shalala appointed as chairman of the council Edward Gramlich, director of the Institute of Public Policy Studies and professor of economics and public policy at the University of Michigan. Professor Gramlich, 54, also has served as chairman of Michigan's Economics Department and as acting director and deputy director of the Congressional Budget Office. Other members are: - D

Robert Ball, 80, of Virginia - former commissioner of Social Security (1962-1973); member of the 1991 Advisory Council on Social Security and the National Commission on Social Security Reform (Greenspan); chair of the board, National Academy of Social Insurance. - D

Joan Bok, 64, of Massachusetts - chairman of the New England Electric System; member, boards of directors of Avery Dennison Corporation, the Federal Reserve Bank of Boston, John Hancock Mutual Life Insurance Company and the Monsanto Company. - ?

Ann Combs, 37, of Washington, D.C. - principal, William M. Mercer, Inc.; former deputy assistant secretary for Policy, Pension and Welfare Benefits Administration, Labor Department (1986-1993); staff member, National Commission on Social Security Reform (Greenspan). - R ?

Edith Fierst, 69, of Maryland - attorney, Fierst & Moss, P.C., and member of the Advisory Committee of the Pension Rights Center; chair, Technical Committee on Earnings Sharing; specialist in federal and military pension litigation.

- More -

Gloria Johnson, 66, of Maryland - director of the Department of Social Action, International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers and vice president of AFL-CIO Executive Council; president of the Coalition of Labor Union Women. - D

Thomas Jones, 45, of Connecticut - president and COO, Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF); member, boards of directors of Thomas & Betts Corporation and Eastern Enterprises; trustee of Cornell University, Brookings Institution and Committee for Economic Development. - D/Ind?

George Kourpias, 61, of Maryland - president, International Association of Machinists and Aerospace Workers, AFL-CIO; member, boards of directors for the National Council of Senior Citizens, Space Cause and the American Association for the Advancement of Science; member of Overseas Private Investment Corporation (OPIC). - D

Sylvester Schieber, 47, of Maryland - vice president and director of the Research and Information Center, The Wyatt Company; former director of research, Employee Benefits Research Institute; a senior economist and deputy director of policy analysis for the Social Security Administration. - R?

Gerald Shea, 47, of Washington, D.C. - director, Department of Employee Benefits for health care, pensions, Social Security and child care, in AFL-CIO; previously, assistant to the president for government affairs for the Service Employees International Union and organizer for SEIU in Massachusetts. - D

Marc Twinney, 64, of Michigan - director of pensions for the Ford Motor Company; member of the American Academy of Actuaries and the Pension Research Council of the Wharton School; previously, a consultant at Hewitt Associates, Milliman and Robertson, and Hansen Consulting Actuaries. - ?

Fidel Vargas, 25, of California - mayor of Baldwin Park, Calif., and senior policy analyst to Los Angeles Mayor Richard Riordan; past vice president of Phillips Brooks House, the community service organization of Harvard College. - D

Carolyn Weaver, 42, of Virginia - director, Social Security and Pension Studies, The American Enterprise Institute; member, 1987 Social Security Disability Advisory Council and senior advisor, National Commission on Social Security Reform (Greenspan); former staff member of Senate Finance Committee and the economics faculties of Tulane University and Virginia Tech. - R

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Advisory Council

What follows are meeting dates for the Advisory Council through June 1995. These dates were chosen based on member responses.

January 27 - one-day (Friday) meeting at Sheraton City Centre, 1143 New Hampshire Avenue, NW, (202) 775-0800. The meeting will run from 8:30 a.m. - 5:00 p.m.

February 10 & 11 - two-day Advisory Council meeting at Sheraton City Centre. Was originally planned as public hearings for Feb 9 & 10.

March 8-11 - A two-day public hearing (Wednesday 3/8 - Thursday 3/9) and a two-day meeting (Friday 3/10 - Saturday 3/11)

April 21 & 22 - two-day Advisory Council meeting

May 19 & 20 - two-day Advisory Council meeting

June 2 & 3 - two-day Advisory Council meeting

Author: OLCA INFO at SSB
Date: 4/28/95 12:25 PM
Priority: Normal
Subject: Report on Advisory Council Meetings
------------------------------------ Message Contents ------------------------------------

Report on Social Security Advisory Council Meetings
on April 21 and April 22

Members Present:
Edward Gramlich (Chair), Fidel Vargas, Robert Ball, Gerald Shea, Marc Twinney, Ann Combs, Thomas Jones, Joan Bok, Sylvester Schieber, Edith Fierst, and Carolyn Weaver

April 21

The focus of the meeting was the discussion of an illustrative plan to restore long range solvency developed by Robert Ball. (Copy attached.) This plan would not just eliminate the long-range deficit, but would provide fiscal balance for each year during the 75-year period and result in a contingency reserve of 200 percent of the next year's outgo at the end of the period. The plan recognizes the need to save for the retirement of the baby boomers by going to partial advance funding with investments in the private sector as well as government bonds. It is intended to illustrate that "great big changes" are not needed to solve the long-range financing problem in Social Security.

In response to questions from several members, Steve Goss (OACT) said that under this plan benefit payments would exceed income at the end of the 75-year period and the balance of the trust funds would be drifting downward, but at about half the rate of the current system. Under current assumptions, the trust funds would again show a long-range imbalance after 10 or 15 years. The trust funds would reach a high point in the 2015-2030 period with about 5 years' worth of reserves and would end the 75-year period with about 2 1/2 years' worth of reserves.

It was clear during a general discussion of the package that the Council was divided. Some members liked it because it was a package of modest changes that, coupled with changes in investment policy, would build public confidence and preserve the current system. However, others thought that a more fundamental change was needed to secure Social Security for today's young people.

Many of the members were uneasy with this package because the system would again become out of balance and another financial crisis would occur in 10 or so years. There was general concern that the system would be "under fixed" and that this would lead to a further decrease in public confidence. There was discussion of the possibility of some kind of "failsafe" or automatic governor to take account of the inherent problems in predicting economic and demographic trends over a 75-year period. Two possible failsafes--a future increase in the FICA tax, if needed, and automatic indexing of retirement age to life expectancy changes--were discussed.

The members decided to leave for a future discussion the questions of what the target should be in terms of financing and whether fundamental or incremental changes were needed, and focus plan. The discussion began with item 2--correction of the Consumer Price Index (CPI) used to measure inflation--because there was agreement that the savings shown for this change were both questionable and controversial.

Chairman Edward Gramlich stated that, although there seems to be general agreement that the CPI is flawed, there is no agreement on the degree to which it overstates inflation and no indication of when or how it will be adjusted. It seems risky to count on a saving by the Social Security trust funds based on an unknown change in the way the increase in prices is measured.

Dave Lindeman, Executive Director of the Advisory Council, indicated that the 0.25 percent of taxable payroll saving attributed to the change may be overstated because in the long-range the CPI and another measure of price increases called the GDP deflator are assumed to rise at the same rate. The deflator eliminates a lot of the bias that is found in the CPI and so the long-range estimates do not necessarily reflect the full overstatement of price increases found in the CPI.

Steve Goss indicated that there was a basic difference of opinion among knowledgeable people about how to estimate the saving due to a change in the CPI measure. In response to a question from Sylvester Schieber, he said that the 0.25 percent saving reflected the highest saving and that the other extreme would be a saving of as little as 0.03 percent.

There was general agreement that there was at least a reasonable doubt about the amount of saving that should be counted from this kind of change.

The Council then turned to a discussion of the first item--a change in investment policy for the trust funds. The specific proposal is to gradually invest the excess trust funds in a mixture of 1/2 government bonds, 1/4 public stocks, and 1/4 corporate bonds. This would result in increased earnings for the trust funds and in some real savings for the baby boomers retirement through the investment in stocks and corporate bonds. The Council was troubled about the specific mix of investments and the mechanics of managing the investments without "political" interference, but with enough flexibility to make reasonable financial decisions.

After a lengthy discussion, the Council decided that the current Trustees could pursue a passive investment strategy based on an index representative of the widest U.S. equity market as part of their fiduciary responsibilities. This strategy would be similar to the strategy of many large corporate retirement systems. In order to answer questions about specific indexes and possible risks, the Council decided to have some work done using a simulation model. Thomas Jones offered the assistance of his employees who have expertise in this area. The Council agreed that if the simulation showed no significant problems, they would be sympathetic to this kind of approach to investment of the trust funds.

Chairman Gramlich asked if there were any objections to the third item in the illustrative package--coverage of newly hired State and local workers--that had a program rationale rather than a political or financial rationale. Mr. Schieber said that universal coverage is desirable from a policy viewpoint, but can populations and could cause financial problems for these States.

Fidel Vargas said that, speaking as a representative of local government, he would oppose this proposal because it would have an unfavorable financial impact on local government. However, he would not let this consideration stop him from supporting a package of proposals including this provision that he was convinced would solve the Social Security financing problem for future generations. (He is not convinced that this package would do that.) Gerald Shea said that, although his constituency would normally oppose this proposal, they would be willing to support it in order to solve the financing problem. (He indicated that this package was moving in the right direction.) Chairman Gramlich summed up the discussion by indicating that all of the members present were sympathetic, or at least partially sympathetic, to this proposal under certain circumstances.

The Council turned to a discussion of the fourth item--taxation of that part of benefits that exceeds what the worker paid in payroll taxes. This proposal would maintain the current law income thresholds that must be met before benefits are taxable, but would compute the part of benefits that are taxable on an individual basis. The 0.48 percent of taxable savings estimate includes reallocating the income from the current taxation of benefits provision back to the OASDI Trust Fund from the HI Trust Fund.

Virtually all of the Council members agreed that Social Security benefits should be taxed "like other retirement payments." However, there was disagreement about the use of the thresholds and whether the proceeds from taxation should go to the trust funds rather than the general fund. Six members indicated that they supported elimination of the thresholds and seven members indicated that they supported earmarking the revenues for the trust funds rather than letting them go to the general fund.

In response to a question, Steve Goss indicated that about 1/4 of the 0.48 percent saving is new revenue and 3/4 is revenue that is currently going to the HI Trust Fund. The members discussed whether they should "take credit" for savings that were, in effect, just a reallocation from the HI Trust Fund. Although all members supported the proposition that revenue from tax on Social Security should not be credited to the HI Trust Fund, they could not agree that they should count any revenue currently going to the HI Trust Fund against the OASDI long-range deficit. Chairman Gramlich was particularly opposed to counting this revenue.

The Council returned to the question of what they were trying to do--just solve the financial shortfall by making incremental changes or make more fundamental changes in order to assure a sound system for all future generations. Mr. Vargas and Carolyn Weaver indicated that the Council first had to decide what they wanted Social Security to be in the future before they could consider specific ways of getting there. Mr. Jones, on the other hand, indicated that the Council should first see if there was a series of incremental changes that would solve the problem before considering more fundamental changes that would basically change the current system. Chairman Gramlich said that the illustrative proposal developed by Mr. Schieber, which the Council would consider on Saturday, would allow consideration of some of these issues and that further discussion should be postponed until then.

The Council then decided to begin discussing increasing retirement age. Mr. Lindeman and Mr. Schieber raised the question of how increases in retirement age can interact the benefit formula and real wage growth to result in "notches"--i.e., decreases in benefits from year to year for newly eligible retirees. The Council agreed that they wished to avoid such notches and briefly discussed the possibility of building in a failsafe mechanism to assure this outcome before adjourning for the day.

April 22

At the beginning of the meeting, Mr. Schieber presented a Social Security reform package that he had developed. This plan includes several elements:

o Raise normal retirement age to 68 over the period 2000-2017 and increase the earliest eligibility age (now age 62) to age 65 over the same period.

o Replace the current benefit structure with one that provides a flat-dollar benefit at a level that would balance the system at the current payroll tax rate. (The amount would be wage-indexed before initial eligibility and price-indexed thereafter.) Workers with 35 years of coverage credit would get 100 percent of this amount. Workers with 10 years of work would get 50 percent of the full flat benefit and each additional year of work over 10 years would accrue an additional 2 percent so that a full benefit would be earned with 35 years of earnings.

o Spouse's benefits for non-insured spouses would equal one-third of the basic benefit paid to the worker. Retirees with a spouse would be required to purchase (through an appropriate reduction in their primary benefit) a survivor benefit equal to 75 percent of the primary benefit.

o To compensate for the increase in the earliest eligibility age, a special program would allow a worker to purchase (either at age 62 or through pre-tax payroll deductions during his or her working years) an indexed annuity payable for the period between age 62 and 65. This program would also allow the person to purchase additional indexed annuities up to 150 percent of the poverty line, payable throughout his or her retirement years. The assets from these prefunded annuities would be separate from Social Security. They would not be part of any Federal fiscal operations and would be managed by an independent management board.

o A transition would be accomplished over 2000-2020 for newly eligible retirees through a phased-in blending of the benefit calculated under the new formula and the benefit calculated under current law.

Mr. Ball indicated that he had serious concerns with providing a benefit structure based on a flat benefit if it were to be financed by the current regressive payroll tax. He was concerned that high earners would pay much more in taxes than low earners, yet get the same benefit. He said that this result would be inequitable and that public support for the program among high earners would evaporate. Mr. Schieber responded that the rates of return for high earners are already inequitable and that it is just a matter of degree. Ms. Weaver noted that cutting rates of

... as inevitable under any reform plan if the plan is financed with the current level of payroll taxes.

Chairman Gramlich noted that Mr. Schieber's flat benefit could be modified so that higher earners could receive a greater benefit than low earners. Mr. Lindeman suggested that one approach would be to increase the 90 percent factor in the benefit formula and decrease the 15 percent factor. Alternatively, the rule could be that the worker gets the higher of a specified percentage of average earnings, or the flat benefit.

Ms. Weaver and Mr. Vargas generally expressed support for Mr. Schieber's flat-benefit plan. In addition, Ms. Weaver asked that more consideration be given by the Council to a double decker plan--i.e., a plan that provides a flat benefit plus a benefit directly proportional to the worker's earnings. She said that one of the advantages of a double decker scheme is that the adequacy and equity components of the program are clearly distinguished, so the program would be more understandable. Mr. Lindeman, noted that there was some congressional interest in double decker plans and that the plan advocated by the World Bank was a variation of a double decker--a flat benefit supplemented by a privately managed savings plan.

Edith Fierst, Marc Twinney, Gerald Shea, and Thomas Jones said they had problems with going to a flat-benefit plan like that suggested by Mr. Schieber. Mr. Jones said this would be a fundamental change in the program and could only be justified if the current system is "broken". However, he did not think that was the case, and that incremental change seemed more appropriate.

Ms. Fierst said that the element of the Mr. Schieber's package that would allow a worker to contribute to a special savings plan to supplement Social Security benefits was intriguing. Several members of the Council also expressed interest in this idea. Ms. Weaver said that under such a savings plan, the public could be assured that they are getting what they paid for. Chairman Gramlich agreed that this idea warrants further study and consideration.

Mr. Shea said that if the normal retirement age were increased beyond age 67, he was not sure he could support other additional benefit cuts because of the disproportionate impact. Rather, he thought a modest payroll tax increase would be better. Ann Combs said that, given the financing problems of the HI Trust Fund, which could require an HI tax increase, she did not think it was a good idea to also increase the OASDI tax. Ms. Weaver noted that the Social Security tax is already a bigger burden than the income tax for many people.

Ms. Combs suggested that consideration be given to a "middle ground" approach that could include elements from both Mr. Ball's plan and Mr. Schieber's plan. Although she said she was not claiming "ownership" of such a plan, it could include: (1) raising the normal retirement age to 68 and the earliest eligibility age to 65, (2) permitting the purchase of a "bridge annuity" between ages 62 and 65, (3) taxing benefits to a greater degree, (4) covering newly-hired State and local government employees, (5) some form of a flat-benefit plan, and (6) a means-tested cost-of-living adjustment.

Chairman Gramlich also suggested that, in addition to this middle ground approach, consideration be given to the plan offered by Mr. Ball, as modified to eliminate both the correction for the CPI and the transfer of money now earmarked for the HI Trust Fund. He suggested that, for purposes of comparing it to other plans, the payroll tax be further increased under such a modified plan to make up for the reduction in revenue due to the modifications.

Ms. Weaver raised a question about whether the Council was going to study the problems facing the Social Security disability program. Chairman Gramlich indicated that the group had previously agreed to not to do an in-depth review of the disability program. Ms. Weaver said she had many concerns about the current disability program, but acknowledged that the disability program was very complex and that it would likely take 6 months for the Council just to get a good understanding of the intricacies of the program. Chairman Gramlich noted that, by law, the Council was supposed to submit its report by the end of the year and that he did not think they would have time for a comprehensive review of the disability program.

With respect to agenda items for future meetings, Chairman Gramlich indicated that further discussion was needed on the idea of investing trust fund assets in equities. He then asked Council members for other items. Ms. Weaver offered three program changes that needed further discussion: a double decker benefit structure, providing an optional individual retirement account (IRA) as a substitute for part of Social Security, and the "companion proposal" to reduce disability benefits if the normal retirement age were increased.

At the end of the meeting, Chairman Gramlich introduced Chris Bender who has developed (under a contract with the Council) a user-friendly computer software package that can rapidly assess the effect on Social Security retirement benefits of many different OASI program changes. Mr. Bender explained that the package will provide data on the replacement rates (benefits as a percent of preretirement earnings) for career low, average, and maximum earners that would result under a myriad of possible program changes that the user could specify. Mr. Bender demonstrated the software and said that he would make copies of the software and the user manual and provide them to all interested Council members.

Attachment:

Robert Ball's Illustrative Plan to Restore Long-Range Solvency

1995 Trustees Report Deficit			2.17
Changes that do not affect benefits or contributions:			
1.	Build fund and change investment policy	0.70	
2.	Correct inflation measure (0.2)	0.25	
3.	Cover newly-hired State and local workers	0.21	
	Total	1.16	
			-1.01

7

4.	Tax that part of benefits that exceeds what worker paid	0.48	
5.	Extend computation from 35 to 38 years	0.28	
6.	Increase maximum benefit and contribution base in two $5,000 steps	0.17	
7.	Increase contribution rate two-tenths of 1 percent each	0.38	
8.	Eliminate hiatus in present law schedule for increasing the normal retirement age	0.12	
	Total	1.43	
			0.42
	Interaction		-0.10
			0.32
9.	Reduce spouse's benefit and provide widow's benefit equal to 75 % of couple's benefit		-0.15
	Surplus		0.17

Robert M. Ball
April 21, 1995

Advisory Council

[152] From: ^OLCA INFO at ^S5B 3/22/95 1:53PM (14900 bytes: 290 ln)
Subject: Advisory Council Meetings of March 10 and 11, 1995
------------------------------ Message Contents ------------------------------

Report of March 10 and 11, 1995 Meetings
of the 1994 Advisory Council on Social Security

Report of the Assumptions and Methods Technical Panel

The panel's report was divided into two parts--methods and assumptions. On the issue of methods, two panel members, Martin Holmer and Michael Sze, explained to the Council that they had developed stylized (highly simplified) models to illustrate more sophisticated methods for predicting the probable range of future outcomes of program income and outgo. They had prepared graphs based on their models using existing data but cautioned that the graphs were not intended to be strictly accurate but to show that the models could, in fact, be used. Mr. Sze added that the models were not intended to replace the current system for modeling outcomes but to supplement it. Howard Young, the panel chair, also warned that a change to new models would take considerable work and resources.

The panel next addressed the issue of assumptions about variables that affect the program. Panel member Sam Preston began by focusing on the question of mortality. SSA projections are based on an assumption that mortality rates will not decline as much in the future as they have in the past because, for example, medical breakthroughs and behavioral changes that occurred earlier in this century will not be repeated. The panel disputed this conclusion. Their tentative decision was not to recommend a change in assumptions for the next 20 years but, beyond that time, to recommend an annual rate of mortality improvement in line with the faster rate which has characterized the twentieth century. Mr. Preston noted that other countries with better data are showing an improvement in mortality rates.

Next, panel member Diane Macunovich presented her conclusions on the subjects of fertility and labor force participation of women. Ms. Macunovich had translated existing data to apply to "cohorts" (i.e., groups of individuals born in particular years). Cohorts vary as to the number of children women have as well as the age at which they start having children. In the 1950's, women had children at earlier ages; the "baby boomers", in contrast, are having their children at a later age. There is some indication that younger cohorts may be starting families earlier. Accordingly, the panel recommended a slightly higher fertility rate over the next decade before a stable level is reached.

With respect to labor force participation of women, Ms. Macunovich noted a steady increase for cohorts born in 1921 and later. However, labor force participation rates dropped off for those born after 1961. Further, those cohorts which started off with high labor force participation rates continued to have high labor force participation rates. Based on these findings, Ms. Macunovich predicted a higher rate of labor force participation for women than did the Social Security actuaries. She mentioned that this work was very recently completed and had not been discussed by members of the panel.

The panel was split on the issues of real wage growth and real interest rates. Some felt that the Social Security estimates were reasonable; others felt that lower wage growth and higher interest rates would be more realistic because of recent developments concerning savings on the part of the government, businesses, and individuals. Advisory Council chair Ned Gramlich suggested that the panel "split the difference" in these rates, but Mr. Young stated that the panel had discussed this option but decided against it.

In addition to the presentations, several members of the panel submitted papers they had written. (These papers did not, however, constitute official panel documents). Of the assumptions discussed, the panel's recommendations on fertility and labor force participation rates for women were more favorable to the program than the current ones but the recommended mortality rates were less favorable.

The Advisory Council discussed how the information presented by the panel should be handled, i.e., whether to comment, adopt the recommendations, recommend the inclusion of new models in the trustees' report, etc.. Some felt that new models would be valuable (Schieber, Lindeman); others (Jones) disagreed and thought they would alarm or confuse the public. Carolyn Weaver suggested that Council accept the panel's report but not depart from current practices at this time. Bob Ball agreed.

Taxing Social Security Benefits

Following the Technical Panel presentations, Executive Director David Lindeman briefed the Council on the taxation of Social Security and pension benefits, the points at which tax might be assessed (e.g., when the contributions are paid in or when the benefits are paid out), the rate of tax that might be applied, and the amount of benefits on which tax might be assessed. Three Council members (Ball, Bok, and Fierst) argued in favor of taxing only the amount of benefits that exceed contributions.

Raising Retirement Age and Changing the Benefit Formula

David Lindeman presented the Council members with a set of graphs on options for increasing the retirement age and/or changing the benefit formula. The options included raising the normal retirement age (NRA) to 68 or 70, with varying phase-in schedules. Some of the options would also increase the earliest eligibility age to three years before the increased NRA. The suggested changes to the benefit formula would reduce benefits for above-average earners.

Funding

Ned Gramlich initiated discussion about how the Social Security trust funds should be funded (e.g., advanced funding, partially advanced funding, or pay-as-you-go funding) and how the trust funds should be invested. Syl Schieber and Carolyn Weaver favored advanced funding. Bob Ball recalled early arguments against building up large reserves. Some people had blamed the trust fund buildup for the 1937 recession. Fidel Vargus was concerned that large buildups could lead to pressure for social investing (investment of trust fund assets in instruments other than U.S. bonds to achieve socially desirable results). On the other hand, a pay-as-you-go system could create a situation in which benefits were constantly in danger of being slashed or taxes were constantly being raised. Ann Combs suggested individual accounts, like the Thrift Savings Plan, as a way to prevent political or social investing. Tom Jones weighed the current risk of low returns against the potential risk of collapsing markets resulting from more adventurous investments. Edith Fierst thought one approach to reducing market risk would be to limit the extent of investment in private markets. Bob Ball mentioned the unease in the early days of the program at the prospect of the government's investing in private firms. David Lindeman brought up experiences in some other countries: in Japan, there was political pressure to invest in low-yield bonds, and in Sweden, an attempt had been made to raid the system.

Report of Technical Panel on Trends and Issues in Retirement Savings

Private Pension Policy

John Haley, member, Technical Panel, presented the first report, regarding private employer pension policy and how to augment private pensions in view of possible reductions in future levels of Social Security benefits. His report focused on three issues: increase pension coverage and participation, increase pension accumulation, and reduce pension losses.

To achieve these goals, he emphasized the need to simplify the current system through defined contribution plans with increased portability. To reduce pension losses, pensions should be fully funded and some inflation protection should be offered. Inflation protection could best be offered through the availability of indexed bonds; government bonds whose principal is indexed to the rate of inflation--i.e., bonds that, in effect, offer an interest rate of inflation plus a fixed percentage.

Indexed Bonds

John Shoven, next reported on the concept of the Federal government issuing indexed bonds to provide protection against inflation. The primary benefit of indexed bonds is that, with more people directing their own pension contributions, indexed bonds provide a safe and easily understood investment. He also stated that indexed bonds are desirable for a pension requiring phased payouts and hold out the possibility that insurance companies would be willing to offer inflation-adjusted life annuities, similar to Social Security payments (that receive COLAs), if they could invest in government-issued indexed bonds.

According to Mr. Shoven, indexed bonds could help reduce the interest cost of the national debt and would encourage the government to keep inflation low. However, some people view indexed bonds as an acknowledgement that the government accepts inflation. While indexed bonds have been successful in the United Kingdom, many U.S. government officials oppose them. Also, there is little support on Wall Street for these bonds because demand is unproven and the secondary market for them may be very weak. In a response to a question from Gary Burtless r garding who could purchase these bonds, Mr. Shoven repled that they would be offered only to pension plans.

Interrelationship of Retirement Ages

Peter Diamond, member, Technical Panel, reported on the interaction of the various rules regarding retirement age. For example, in examining changes in the retirement age for workers, the Council will have to examine how this will impact on the retirement age for widows. In examining changes in the retirement age, the Council must also examine the reasons people decide to retire such as loss of job, short life expectancy, and poor health. He stated that raising the early retirement age for workers may have many adverse social affects. Also, changes in the retirement age will impact on the disability program and considerations must be given to the area of overlap between disability and early retirement.

Richard Burkhauser, member, Technical Panel, then presented a report on the research he has begun regarding workforce participation, health, and pension participation rates for male workers in the year they elect to receive Social Security retirement benefits, and in the years both preceding and following their entitlement. He is also examining income levels for workers, couples, and widows, while looking at poverty rates and pension adequacy.

Investment of Trust Funds

Olivia Mitchell, co-chair, Technical Panel and Steve Zeldes, mber, Technical Panel, reported on alternative methods of investing the trust fund surplus. They stated that it would be easier to remedy the long-range balance of the trust fund if action is taken now. However, in doing this, the surplus in the trust fund will grow even larger. Two alternatives they examined involved investing some of the trust fund surplus in the stock rket and channeling some of the surplus into individual accounts.

Investment in the stock market would involve a tradeoff of risk versus return. The extent of the risk and who would bear the risk would have to be determined. They stated that investment in the stock market would not be the "magic bullet" that many advocates of such investment contend.

Alternatively, some of the surplus could be converted into mandatory individual defined contribution accounts. Such accounts would:

- Afford people the opportunity to allocate their own investments.
- Appeal to many middle-aged and younger workers who may be willing trade what they believe is an uncertain promise of future benefits for the certainty of their own investment account.
- Reduce long-term Social Security liabilities.

- Create a new source of investment funds.

However the creation of individual accounts would have some potential negative aspects such as:

- The contributions may not be sufficient to replace the difference from any reduction in Social Security benefits.

- People may not manage their investments properly. The government could offer a safe investment fund but a very conservative investment strategy may not provide sufficient income.

- Cash outs, if allowed, could lead to the removal of money before retirement.

- Private holdings do not provide inflation protection.

- Tax collection costs may rise. It would be advisable to continue to have the IRS collect the full payroll tax.

- Mandatory individual accounts may crowd-out employer sponsored pensions.

After the presentations by the Technical Panel, the members of the Advisory Council discussed some of their concerns. One issue discussed was administrative costs. Since the present Social Security program has a very low administrative cost, any change in the system will probably lead to higher administrative costs. Gerald Shea believes that administrative costs will rise proportionally with the complexity of the system. He cited the current healthcare system as an example of this problem. Tom Jones stated that a complex system of unlimited choices may not be needed.

Robert Ball stated that the Advisory Council should discuss the political problems. He believes that if the Social Security system becomes just a means-tested system with individual m ndated plans, there would be political pressure from people who will want to leave the system.

Sylvester Schreiber commented that while it appears that Social Security remains committed to addressing the problem of adequacy, it is becoming harder to maintain equity. Robert Ball stated that Social Security may have to reduce the emphasis on rate of return. Both he and Carolyn Weaver indicated support for the investment of a portion of the trust fund surplus in the private s ctor, but not through individual accounts.

Tom Jones also indicated support for changing the investment policy for the trust funds and wanted the technical panel to do more research into this matter. He stated that the issue of risk needs to be examined as well as the political effects of investing the trust funds in the private sector.

Conference agreement

The conference agreement follows the House bill (i.e., no provision).

m. Advisory Council

Present law

An advisory council is appointed by the Secretary of HHS every four years for the purpose of reviewing the status of the Social Security and Medicare programs.

House bill

No provision.

Senate amendment

There would be no quadrennial advisory councils for Social Security, although quadrennial councils would continue to be convened for Medicare.

Conference agreement

The conference agreement follows the Senate amendment, except that the provision does not authorize quadrennial advisory councils for Medicare. Also, the Advisory Council appointed in 1994 would be authorized to complete its work. The conferees expect that the Congress will consider authorizing quadrennial advisory councils for Medicare in future legislation.

n. Annual Report

Present law

The Secretary of HHS is required to make an annual report to Congress on the administration of the functions with which the Secretary is charged under the Social Security Act (including OASDI and SSI).

House bill

No provision.

Senate amendment

The requirement for an annual report with respect to OASDI and SSI would be eliminated.

Conference agreement

The conference agreement follows the Senate amendment, with a technical amendment modifying provisions of existing law which require the inclusion of information in SSA's annual report so that this information will be provided to Congress separately.

The conferees do not intend this provision to override any statutory requirements that SSA provide information to Congress. Rather, reports that are mandated by law will continue to be provided. Furthermore, in the absence of the annual report, the conferees expect that SSA will include in its annual statistical supplement basic information similar to that currently included in the annual report on: (1) the OASI, DI, and SSI programs; (2) the struc-

August 10, 1995

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: Molly Brostrom
Domestic Policy Council

RE: Background on Current Social Security Issues

This memorandum provides background on a few current Social Security issues. The information is purely for background purposes; we do not anticipate your needing to address any of the issues during tomorrow's press conference.

Chater Confirmation
Sen. Packwood is currently holding up Commissioner Chater's confirmation, demanding that the Administration first lay out options for addressing long term solvency of the Social Security trust fund. (Shirley Chater was confirmed in October 1993 to head HHS' Social Security Administration. In accord with independent agency legislation, she was reappointed by the President in November 1994.) Her confirmation hearing was held in February 1995, but Sen. Packwood has held up her confirmation since then saying she is providing weak leadership. Under the independent agency legislation, however, Comm. Chater has full powers because she was previously confirmed.

Social Security Solvency
This year's annual report of the Board of Trustees of the Social Security and Medicare trust funds projected that the Social Security trust fund (the retirement and survivors benefits part) will remain solvent for the next 35 years, until 2030 (as you know, the projection for solvency for the Medicare part was much shorter -- 2002.)

While these projections of long term insolvency are not new or imminent, they have contributed to decreased confidence in the future of the program and have lead to calls for immediate attention to the Social Security solvency.

Administration Response
The Administration's position on long term solvency has been that the program is too important for options to be treated as a political football (Sen. Dole and Speaker Gingrich also believe it is premature to begin debating proposals). Thirty five years of solvency means we have time to carefully consider proposals that will impact the program for years to come.

All previous changes to the Social Security program have been preceded by analysis and recommendations from a bipartisan, independent council. Last year, Secretary Shalala asked the Social Security Advisory Council to focus on Social Security financing and to develop recommendations for improving the long-range financial status of the Social Security program. The Administration will carefully consider the recommendations of the Council, expected to be submitted to the President this fall. This Administration is committed to the Social Security program and the principles that have made it successful for 60 years.

Social Security Advisory Council.
The President's Advisory Council on Social Security is bipartisan and encompasses a wide range of views on Social Security. This diversity of opinion has lead some to question whether they will be able to reach a consensus on recommendations, particularly because of division on big issues such as increasing the retirement age or proposing additional revenues. The Council meets next at the end of August.

The primary proposals under consideration by the Council are:

1. A proposal that would make incremental changes in a number of different areas, including increased revenues, to provide fiscal balance for a 75-year period.

2. A proposal that would, among other things, replace the current benefit structure with one that provides a flat-dollar benefit at a level that would balance the system at the current payroll tax rate. The proposal would also allow a worker to contribute to an IRA-like savings plan, managed by an independent board, to supplement Social Security benefits. (Council Chairman Gramlich was rumored to be leaning toward this generally-considered more "conservative" proposal.)

3. A "double decker" proposal that would provide a flat benefit plus a benefit directly proportional to a worker's earnings (reportedly there is congressional interest in double decker plans).

4. A "middle ground" approach that would include elements of the three proposals.

Other Proposals
Sens. Simpson and Kerrey have been the primary Congressional proponents of immediate and radical steps on Social Security financing (as you may recall, they were members of the Kerrey-Danforth Entitlement Commission which reached an impasse last fall). They have introduced legislation proposal that would, among other things, channel 2% of the payroll tax into private investment accounts. In response to a hearing held by Sen. Simpson last week, Comm. Chater issued a statement explaining that SSA has concerns because, instead of supplementing Social Security, it substitutes money from an existing pool of trust fund dollars. The result is bad investments, lower benefits, and an increase in poverty (statement attached). The Simpson-Kerrey proposal would also cap Social Security COLAs and raise the retirement age to 70.

SSA REGO II
In April, the Vice President announced a set of reinvention initiatives for the Social Security Administration aimed at improving social security operations and achieving $900 million in savings. These initiatives include: cycling payment days to better distribute workload at SSA; improvements to 1-800 telephone service; increasing

direct deposit/electronic benefits transfer services; and improvements to the disability adjudication process. A proposal to eliminate SSA's role in the collection of attorney's fees has resulted in a slew of critical mail, primarily from attorneys. A proposal to consolidate regional offices from ten to five has met with some Congressional resistance. Details of REGO II recommendations are attached.

Attachments

cc: Carol Rasco
Jeremy Ben-Ami

8/3 Senior Staff Mtg

Ned Gramlich, Chair Advisory Council —

~~Six~~ 7 principles Advisory Council is likely to agree on. (Altho will be some dissenting voices, particularly on [redacted] options).

1) Preserve essence of present syst (Broad Agreemt)
- Benefits related to Earnings
- Indexed for Cost Living
- Survivor's benefits etc.
- Mix the individual equity & adequacy
(Some arguing ½ go to equity piece / ½ go to adequacy

"Principles have served Country well for 60 years"

2) Stabilize Trust Fund Ratio
- Don't hit zero at 2070
- B/c demographics, few years from now, will be out of balance in 75 yrs.

3) Try to raise (or not lower) Savings
- Do our business w/o impacting budget & savings elsewhere

4) Broad Sharing.
- All must bear some costs

Current Retirees — Should share, althgh
don't [illegible] COLA

- Means Test of Benefits, Council can't support either. It's an earnings related system.

- ~~[illegible]~~ A.C. is Considering is Full Income taxation of benefits
  - Would result is same for increase revenues.
- AC Considering for younger, high income people.
- possibly Raise retirement age. Eliminate hiatus, has broad agreement.
- Probably some provision Covering all State + local employees

5) No Notches.
   - Phase in changes very gradually so no notches.

6) Individualized Accounts.
   - Might look at Individualized accounts on top of present system. Generally opposed to Carving out of present system. Changes essence of system.

7) Make system more transparent to Public (it's too complicated)

Disagreements

1
- Do these principles take rates to pay present benefit schedule.
- Alternative is Focus on ~~Intermediate~~ Assumptions in making able to make payments.

"Big Plan vs. Little Plan"

2 Preserve Character of present benefit structure

possibly have 3-part system.

- Double Decker system
(\$5,000 on floor for 35 yrs. work)

- AIME. Bend point changes

Key points: Avoid Notches.

Mtgs — End August
End Sept/begin October
Final mtg in November
Draft to Chair by Oct 1st
Press Conference in December
Final version by December 31.

Judy Chassen
Congl Affairs, SSA
482-7148

THE WHITE HOUSE

WASHINGTON

16 May 1995

MEMORANDUM FOR JOHN ANGELL

FROM: Molly Brostrom mb
Domestic Policy Council

RE: Social Security Advisory Council

Per your request, this memorandum provides background information on the Social Security Advisory Council, as well as a brief summary of the proposals expected to be discussed at the Council's May 19-20 meeting.

Advisory Council

The Social Security Advisory Council is a statutorily created ~~12~~ 13-member body, appointed every four years (thus, often called the Quadrennial Advisory Council) to review Social Security Act policy issues. As required by statute, the Advisory Council was appointed by Secretary Shalala (announced June 9, 1994). The Secretary asked the Council to focus on Social Security financing and to develop recommendations for improving the long-range financial status of the Social Security program. Commissioner Chater and others have often pointed to this Advisory Council as providing the groundwork necessary for the Admnistration to address long-term Social Security solvency.

Also as required by statute, membership of the Advisory Council is bipartisan and encompasses a wide range of views on Social Security. Edward Gramlich, director of the Institute of Public Policy Studies at the University of Michigan, was appointed chair of the Council. Members include:

consensus builder

- Bob Ball--Commissioner of Social Security, 1962-73;
- Jerry Shea, Gloria Johnson, and George Kourpias--all affiliated with the AFL-CIO;
- Fidel Vargas--25-year old mayor of Baldwin Park, CA; and
- Carolyn Weaver--American Enterprise Institute.

LWL

Attached is an HHS press release that includes a full list of members and short biographies. The executive director of the Council is David Lindeman, career civil servant from the Pension Benefit Guarantee Corporation.

There is concern about the Council because of their independence and the widely disparate views held by members. It is very unclear at this time where the recommendations will come down. Potential scenarios include: the Council, like the Kerrey Commission, will be unable to arrive at a consensus; or a consensus will be forged that includes very controversial proposals.

Through public hearings and other open meetings, the Council has compiled a list of possible options, and is now beginning to focus in on specific proposals to address the long-term solvency of the Social Security Trust Fund. The May 19-20 meeting will be an open discussion of these proposals. The Council is expected to release recommendations in September.

<u>Proposals</u>
The primary proposals under consideration at this time are:

1. A Bob Ball proposal that would make incremental changes in a number of different areas, including increased revenues, to provide fiscal balance for a 75-year period.

2. A Sylvester Schieber proposal that would, among other things, replace the current benefit structure with one that provides a flat-dollar benefit at a level that would balance the system at the current payroll tax rate. The proposal would also allow a worker to contribute to an IRA-like savings plan, managed by an independent board, to supplement Social Security Benefits. (Chairman Gramlich is rumored to be leaning toward this generally-considered more "conservative" proposal.)

3. A "double decker" proposal that would provide a flat benefit plus a benefit directly proportional to a worker's earnings (suggested by Carolyn Weaver; reportedly there is congressional interest in double decker plans).

4. A "middle ground" approach that would include elements of both Ball's and Schieber's proposals.

Please let me know if you would like further details on these proposals.

<u>Advisory Board</u>
As somewhat of a side note: This will be the last Advisory Council. The Social Security Independence Act *eliminated the Quadrennial Advisory Council*, creating a seven-member Advisory Board to provide ongoing policy guidance to the Social Security Administration. On March 31, the President announced his three appointees to the Board (Jerry Shea, Harlan Mathews, and Bill Brooks--one of Presidential appointees required to be of opposing party). The other four members (Martha Keyes, Lori Hanson, Carolyn Weaver, and Pete Singleton) were appointed by the Congressional leadership last fall (two Democrats; two Republicans).

Attachment
cc: Carol Rasco
Kathryn Higgins
Kenneth Apfel
Jeremy Ben-Ami
LeeAnn Inadomi

HHS NEWS

FAX TRANSMITTAL # of pages ▶ 16
To B. Coyne From Nickerson
Dept/Agency Phone #
Fax # ASAP Fax #
NSN 7540-01-317-7368 5099-101 GENERAL SERVICES ADMINISTRATION

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FOR IMMEDIATE RELEASE
Thursday, June 9, 1994

Social Security Administration
Phil Gambino (410) 965-8904

Stressing the importance of ensuring the long-term solvency and viability of this nation's Social Security program, HHS Secretary Donna E. Shalala today announced the appointment of the 1994 Advisory Council on Social Security.

"Each and every American citizen has a stake in the continued good health of this country's Social Security program," Secretary Shalala said. "This council, composed of leading experts in public and private pension systems in the United States, will examine some of the most challenging issues that go to the core of providing adequate and equitable income for the elderly in retirement."

By law, the advisory council, comprised of 12 members in addition to the chairman, is appointed every four years to examine issues affecting the Social Security Old-Age, Survivors, and Disability Insurance (OASDI) programs, as well as the Medicare program and Medicaid, which were created under the Social Security Act.

Unlike advisory councils of the 1980s which focused primarily on disability, Medicare and health-care issues, the 1994 council will focus on the Social Security OASDI program. Specifically, the secretary has asked the council to examine the following areas:

- Social Security financing, including developing recommendations for improving the long-range financial status of the OASDI program;

- More -

Gloria Johnson, 66, of Maryland - director of the Department of Social Action, International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers and vice president of AFL-CIO Executive Council; president of the Coalition of Labor Union Women. - D

Thomas Jones, 45, of Connecticut - president and COO, Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF); member, boards of directors of Thomas & Betts Corporation and Eastern Enterprises; trustee of Cornell University, Brookings Institution and Committee for Economic Development. - D/Ind?

George Kourpias, 61, of Maryland - president, International Association of Machinists and Aerospace Workers, AFL-CIO; member, boards of directors for the National Council of Senior Citizens, Space Cause and the American Association for the Advancement of Science; member of Overseas Private Investment Corporation (OPIC). - D

Sylvester Schieber, 47, of Maryland - vice president and director of the Research and Information Center, The Wyatt Company; former director of research, Employee Benefits Research Institute; a senior economist and deputy director of policy analysis for the Social Security Administration. - R?

Gerald Shea, 47, of Washington, D.C. - director, Department of Employee Benefits for health care, pensions, Social Security and child care, in AFL-CIO; previously, assistant to the president for government affairs for the Service Employees International Union and organizer for SEIU in Massachusetts. - D

Marc Twinney, 64, of Michigan - director of pensions for the Ford Motor Company; member of the American Academy of Actuaries and the Pension Research Council of the Wharton School; previously, a consultant at Hewitt Associates, Milliman and Robertson, and Hansen Consulting Actuaries. - ?

Fidel Vargas, 25, of California - mayor of Baldwin Park, Calif., and senior policy analyst to Los Angeles Mayor Richard Riordan; past vice president of Phillips Brooks House, the community service organization of Harvard College. - D

Carolyn Weaver, 42, of Virginia - director, Social Security and Pension Studies, The American Enterprise Institute; member, 1987 Social Security Disability Advisory Council and senior advisor, National Commission on Social Security Reform (Greenspan); former staff member of Senate Finance Committee and the economics faculties of Tulane University and Virginia Tech. - R

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- The adequacy and equity of Social Security benefits paid to persons at various income levels, in various family situations, and various age cohorts, taking into account such factors as the increased labor participation of women, lower marriage rates, increased likelihood of divorce, and higher poverty rates of aged women; and

- The relative roles of the public and private sector in providing retirement income and how policies in both sectors affect the retirement decisions and economic well-being of individuals.

Secretary Shalala appointed as chairman of the council Edward Gramlich, director of the Institute of Public Policy Studies and professor of economics and public policy at the University of Michigan. Professor Gramlich, 54, also has served as chairman of Michigan's Economics Department and as acting director and deputy director of the Congressional Budget Office. Other members are: - D

Robert Ball, 80, of Virginia - former commissioner of Social Security (1962-1973); member of the 1991 Advisory Council on Social Security and the National Commission on Social Security Reform (Greenspan); chair of the board, National Academy of Social Insurance. - D

Joan Bok, 64, of Massachusetts - chairman of the New England Electric System; member, boards of directors of Avery Dennison Corporation, the Federal Reserve Bank of Boston, John Hancock Mutual Life Insurance Company and the Monsanto Company. - ?

Ann Combs, 37, of Washington, D.C. - principal, William M. Mercer, Inc.; former deputy assistant secretary for Policy, Pension and Welfare Benefits Administration, Labor Department (1986-1993); staff member, National Commission on Social Security Reform (Greenspan). - R ?

Edith Fierst, 69, of Maryland - attorney, Fierst & Moss, P.C., and member of the Advisory Committee of the Pension Rights Center; chair, Technical Committee on Earnings Sharing; specialist in federal and military pension litigation.

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