News Release

SOCIAL SECURITY

For Immediate Release

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STATEMENT BY SHIRLEY S. CHATER
COMMISSIONER OF SOCIAL SECURITY

REGARDING PROPOSALS TO ALLOW WORKERS TO INVEST A PORTION OF THEIR FICA TAXES IN PRIVATE INDIVIDUAL RETIREMENT ACCOUNTS (IRAS)

While I encourage an honest and reasonable debate about options to address the long-term solvency of Social Security, we must carefully consider the potential effects of any plan that would either require or allow workers to privately invest a portion of their earnings that would otherwise provide them with Social Security protection.

If given the opportunity, undoubtedly some people would invest their money wisely, avoid disability or early death, and realize a greater return on their investment than they will get from Social Security. But then again, many people would not. What happens to those millions of people? And what burden would be placed on taxpayers if welfare rolls increased to support the many people whose private investments failed?

Social Security was never meant to be a personal investment program. It is a social insurance program. Unlike private pension plans, social objectives--such as raising the standard of living for lower income workers and offering financial security to the families of all workers--are an integral part of Social Security.

Finally, Social Security was never intended to be a person's only income when he or she retires or becomes disabled, or a family's only income when a breadwinner dies. Social Security is intended to provide a floor of protection that would be supplemented by private pensions, savings, and other investments.

As has been widely reportedly recently, the savings rate of Americans is dismal compared to other industrialized nations. I believe it is imperative, therefore to take whatever steps are necessary to encourage people, particularly younger workers, to increase their savings rate. We should be discussing how to encourage private investments as a supplement to Social Security, not as a substitute.

1994-95 ADVISORY COUNCIL ON SOCIAL SECURITY

Seventh Meeting

National Rural Electric Cooperative Association
1800 Massachusetts Avenue, NW
Washington, DC 20036

March 10-11, 1995

MINUTES
Final

Friday, March 10, 9:02 a.m. - 4:59 p.m.; ***OPEN SESSION***

Members present: Edward Gramlich, Robert Ball, Joan Bok, Ann Combs, Edith Fierst, Gloria Johnson, Thomas Jones, Sylvester Schieber, Gerald Shea, Marc Twinney, Carolyn Weaver, Fidel Vargas. In addition, Charles Bradford represented George Kourpias.

Advisory Council staff: David Lindeman, Executive Director, Daniel Wartonick, Steven Sandell, Wayne Sulfridge and Arlene Berger.

Assumptions and Methods Technical Panel Members: Howard Young, Chair, David Cutler, Martin Holmer, Diane Macunovich, Robert Myers, Samuel Preston, Eugene Steuerle, Michael Sze, Kathleen Utgoff, and Larry Wiltse.

In addition, approximately 20 members of the general public were in attendance.

Chairman Edward Gramlich introduced Howard Young, Chair of the Assumptions and Methods panel, to begin the morning's presentations.

Report of the Assumptions and Methods Technical Panel by Howard Young, Chair and Panel Members

Mr. Young began by introducing the panel members in attendance and indicated they would give presentations on various issues on assumptions and methods. He then explained that although a new Trustees Report was due out at the end of the month, the assumptions used by the panel were based on the 1994 Trustees Report.

Discussion of Methods - Kathleen Utgoff explained that the panel was asked to look at ways of characterizing uncertainty and presenting it for the Social Security system. The panel was very much in favor of using methods that showed the interrelationship of variables and conveyed more information, such as stochastic modeling. The panel was concerned about a number of things: first, that too much emphasis was being placed on the midline of the estimates, especially when there was essentially zero probability that the midline estimates would occur, and that these estimates are driving perceptions and policy; and second, that the upper (optimistic) and lower (pessimistic) bands were very difficult to interpret as they were based on projections of variables that were highly correlated but not always in a positive sense. She cited as an example inflation and real wage growth which are negatively correlated and whose direction and relationship greatly effect the cost of Social Security. The panel explored different ways of characterizing that kind of uncertainty and coming up with stylized models to show the kind of work could be done using a few key variables within the system.

Stochastic Modeling - Martin Holmer and Michael Sze described stylized or simplified models (stochastic simulation) which explicitly recognized the uncertainty that the program is facing and the fact that certain reforms are going to have different effects in different futures. They cautioned that these prototype models were intended to supplement the current system, not to replace it. Mr. Young commented that it always takes a lot of work and resources to implement a new comupter system, espcially one as complex as stochastic modeling.

Mortality - Sam Preston stated that current assumptions show mortality will improve more slowly in the future than it has in the past due to medical breakthroughs and other behavioral changes that occurred earlier in this century and will not be repeated. The panel does not recommend any changes in the actuarial projections over the next 20 year period. However, beyond that point, they project an annual rate of mortality improvement close or equal to the (faster) average rate of improvement in the twentieth century. Mr. Preston concluded by noting that other countries with better data are showing steady and fairly rapid improvements in old age mortality.

Fertility - On the issue of fertility, Diane Macunovich examined data on cohorts of women (groups of women born in specific years) and how these cohorts vary as to the number of children they have and the age at which they have them. Some significant patterns emerged over the past 30 years showing women in the 1950s having large families early on and baby boomers choosing to delay family formation. There is some indication that younger cohorts once again are having children at younger ages. While SSA assumes that the current fertility rate is stable into the future, the panel recommended a slightly higher increase in total fertility over the next decade or two before stability is reached.

Labor Force Participation Rates for Women - In regard to labor force participation, Ms. Macunovich found a slight increase for cohorts born after 1921, although rates began to drop off for cohorts born after 1960. Research has shown that cohorts that begin with high labor force participation rates tend to continue with high labor force participation rates. Based on these findings, Ms. Macunovich predicts higher labor force participation rates for women than does SSA. She cautioned that this work has not yet been presented to the panel, so the prediction may not represent a consensus view.

Real Wage Growth - Mr. Young reported that the panel was split over the increases in real wages and real interest rates. Some felt that over the 75 year period, the savings rate will move in a more favorable direction and therefore the SSA assumptions are reasonable. Other panelists were more pessimistic and felt that given recent behavior by individuals, government and business, if the savings rate stays too low then it is more likely that the real wage increase will be lower and that real interest rates would be higher. Mr. Young said that the panel had discussed splitting the difference but found very little support for it.

Eugene Steuerle presented the panel's recommendation that more research be done in several areas including the distributional effects of changes in benefits and taxes on different cohorts, particularly with regard to effects on mortality. SSA will need good information in order to deal with some very dramatic changes to take place over the next couple of decades.

Mr. Young indicated that it may take a couple of months before the panel report is complete. In summary, the panel split on the mortality assumption, had no recommendation yet on the labor force participation assumption and had consensus on the fertility assumption.

At the end of the presentation, Robert Myers expressed reservations with a number of the panel's statements. He stated that SSA's Office of the Actuary is doing a reasonable job and that there is no need to change the current way things are done. Assumptions should be based not only on mathematical research but also on judgement and experience. Mr. Myers indicated that he did not like stochastic modeling and recommended staying with the low cost/high cost estimates.

Council members discussed how to handle the information presented by the panel, including whether they should comment on it, adopt it, or recommend inclusion of new methods in the trustee's report. Carolyn Weaver recommended that the Council's report utilize the 1995 Alternative II assumptions as its baseline, maybe also show Alternatives I and III assumptions, and then show some projections with the new assumptions. Ms. Weaver also noted for the record that she is comfortable accepting the panel's report.

Introduction to Options for Taxing Social Security Benefits

Executive Director David Lindeman briefed the Council on how Social Security and other pensions are taxed, at what point the tax is assessed (when contributions are paid in or when benefits are distributed), what rate of tax should be applied, and what amount of benefits should be taxed.

Review of Memorandum on Illustrative Benefit Reduction Options

Mr. Lindeman presented several graphs detailing options for raising the retirement age as one way of lowering the benefit schedule. He reviewed different options of raising only the normal retirement age (NRA) or in conjunction with the earliest eligibility age (EEA). Raising the NRA and EEA in tandem reduced costs over time somewhat more than raising the NRA alone. He also reviewed changes that flatten the benefit formula, reducing benefits to above average wage earners. He showed various combinations of measures and their effect on the cost rate relative to the income rate over time.

General Discussion on Financing Alternatives

Chairman Gramlich began a discussion of trust fund financing options (such as pay-as-you-go, full funding, or partially advanced funding), how the funds should be invested (such as in government bonds, equities, indexed funds) and by whom (government or individual account). Mr. Ball favored partial funding but not individualized accounts. Ms. Weaver and Mr. Schieber favored some level of advanced funding.

Mr. Ball related a brief history of the debate on pre-funding the trust funds, the implications thereof and the pitfalls regarding potential ownership of private sector assets through the trust funds. Mr. Lindeman mentioned that there were arguments in the 1930s against building large reserves and that some said the trust fund build-up caused the 1937 recession.

Members discussed the implications of investing the trust fund surpluses in the private market and some expressed concern that the decisions regarding how and where to invest the money would become politicized. Mr. Lindeman noted that the international experience was not much better with Sweden attempting to raid its partially funded system several years ago and with Japan's partially funded system allowed to invest only in relatively low yield bonds and other instruments. Ann Combs remarked that one solution might be properly managed indexed funds. She also suggested that if individualized accounts were to be implemented, the Federal Thrift Account where people choose to invest in the Wells Fargo Index Fund is one way to avoid congressional interference with the money. Mr. Schieber pointed out that investment markets are going to be subject to the same kinds of demographic shifts effecting Social Security financing. With a smaller number of workers contributing to each retirees benefits, there will be fewer workers to buy up assets that will be sold off to finance each senior's retirement.

Gloria Johnson expressed concerns regarding the safeguarding of Social Security funds, the handling of an equity portfolio, the risk of market loss, and the government becoming a shareholder in private funds. Thomas Jones noted these concerns and said that a public sector retirement program would have to address the design issues to permit some advanced funding and pursuit of the same kind of investment efficiencies as are pursued in the private sector with appropriate safeguards. Members used the remainder of time discussing building walls or safeguards around the invested funds, developing a system with a layer of individualized accounts, and the budget treatment of Social Security.

The day concluded with a vote on the minutes of the January 27, 1995 meeting. A motion to approve the minutes was made, seconded, and approved unanimously.

Saturday, February 11, 9:00 a.m. - 12:18 p.m.; ***OPEN SESSION***

Members present: Edward Gramlich, Robert Ball, Joan Bok, Ann Combs, Edith Fierst, Thomas Jones, Sylvester Schieber, Gerald Shea, Marc Twinney, Carolyn Weaver, Fidel Vargas.

Advisory Council staff: David Lindeman, Executive Director, Daniel Wartonick, Steven Sandell, Wayne Sulfridge and Arlene Berger.

Trends and Issues in Retirement Savings Technical Panel Members: Olivia Mitchell and Joseph Quinn, Co-Chairs, Lawrence Atkins, Richard Burkhauser, Gary Burtless, Robert Clark, Dallas Salisbury, Peter Diamond, John Haley, Daniel Halperin, Diane Macunovich, John Shoven, and Stephen Zeldes.

In addition, approximately 15 members of the general public were in attendance.

Chairman Edward Gramlich opened the meeting with a vote on the minutes of the February 10-11, 1995 meeting. The minutes were voted on and passed. He then introduced Joseph Quinn, co-chair of the Trends and Issues in Retirement Savings panel to begin the morning's presentations.

Report of the Trends and Issues in Retirement Savings Technical Panel by Joseph Quinn and Olivia Mitchell, Co-Chairs and Panel Members

Joseph Quinn, Panel Co-Chair, began the presentation with an outline of the panel's written report. It will cover four major areas: 1) the labor market, pension, and private savings trends; 2) policy options to deal with the projected Social Security imbalance; 3) more fundamental changes such as investing in private markets, individual pension accounts or mandating pensions; and 4) other policy options, not necessarily motivated by fiscal imbalance, to improve retiree well-being. Members of the panel would give presentations on several of the key issues before the group.

The Private Sector - Robert Clark addressed the question of how the private sector could be augmented to offset possible benefit reductions in Social Security. The discussion would cover issues aimed at increasing participation and coverage throughout the population. John Haley focused on the issues of pension coverage and participation (pension simplification, mobile plans, multi-employer plans); distribution of taxes and benefits (to get more money flowing to low income groups); increased pension accumulation (defined benefit plans); and reducing pension losses (improve funding, portability or provide inflation protection). Mr. Haley recommended the availability of government-issued indexed bonds in order to provide inflation protection.

Indexed Bonds - John Shoven discussed how government-issued indexed bonds provide inflation protection. With more people directing their own investments, indexed bonds become a safe and easy to understand option. He postulated that inflation-linked bonds will be attractive for pay-out phase of a defined benefit plan or a defined contribution plan which has been annuitized. The insurance industry might be willing to offer real life annuities if they had indexed bonds with which it could be done simply and quickly. Indexed bonds could bolster the government's commitment toward lowering inflation and combating the deficit., as well as save the government money in its total interest costs. Mr. Shoven also pointed out several drawbacks, but did not consider them to be significant concerns.

Interrelationships of Retirement Ages - Peter Diamond discussed the interrelationships between the normal retirement age (NRA) and the earliest entitlement age (EEA). First, the Council must consider the effects of changing the retirement ages on workers who normally would retire early for a variety of reasons and widows; raising the retirement ages may have a variety of adverse social affects. Second, changes to the retirement age will impact the disability program and the Council needs to decide if they want any overlap between the early retirement and disability. Richard Burkhauser presented a study he is conducting on retirement age, pensions, health status and employment status in the year before choosing to retire. He found that one-third of the people who retire at age 62 were not employed in the entire year before they retired and 11% of this group do not have a pension. Two-thirds of the people who are not working before age 62 have pension benefits.

Trust Fund Investment - Stephen Zeldes began the discussion by commenting that timing is very important and that maintaining solvency will inevitably involve some sort of increased taxes or reduced benefits. If the changes are implemented sooner rather than later, the increase in the size of the surplus in the early years will be more than under the current policy. There are three options in dealing with trust fund solvency: 1) continue with the current policy (he did not elaborate); 2) invest some of the surplus in the stock market while considering the risk-return trade-off and who will bear the risk; and 3) channel some of the surplus to individualized accounts.

Individual Accounts - Olivia Mitchell picked up with option three - mandating individual defined contribution accounts formed from a portion of the trust fund or payroll taxes. She indicated the central question was whether the government keeps the money, earns interest on it to hold off insolvency a bit longer or gives the surplus to individuals in which case the system does not earn interest and the day of insolvency arrives sooner. She described various pros and cons of the individual accounts approach. In favor of this approach: reducing uncertainty of what people will get out of the system; providing flexibility on investing assets; creating pressure for deficit reduction; reducing long-term Social Security liabilities; and creating new sources of investment funds. The disadvantages: contributions may not be sufficient if Social Security benefits are reduced; investments may be mismanaged by individuals; people may outlive their money; and individual defined contribution accounts may crowd out employer sponsored pensions.

The remainder of the meeting was spent in further discussion of the issues Ms. Mitchell and the panel raised as well as the topics of adequacy and equity, developing the political support for the level of contribution that will be needed to sustain the program in the future, the relationship between the SSI program and Social Security and further discussion of individual savings issues. After this lengthy discussion, Mr. Schieber concluded that the adequacy and equity issues appear to be tearing each other apart.

1994-95 ADVISORY COUNCIL ON SOCIAL SECURITY

Sixth Meeting

Sheraton City Centre Hotel
1143 New Hampshire Avenue
Washington, D.C.

February 10-11, 1995

MINUTES
FINAL

*Friday, February 10, 8:55 a.m. - 5:00 p.m.; **OPEN SESSION***

Members present: Edward Gramlich, Robert Ball, Joan Bok, Ann Combs, Edith Fierst, Thomas Jones, Sylvester Schieber, Gerald Shea, Marc Twinney. In addition, Charles Bradford represented George Kourpias.

Advisory Council staff: David Lindeman, Executive Director, Daniel Wartonick, Steven Sandell and Arlene Berger.

In addition, approximately 25 members of the general public were in attendance.

Chairman Edward Gramlich opened the meeting by asking David Lindeman, Executive Director, to review the documents that were distributed to each Council member prior to the meeting. Mr. Lindeman provided an overview of the March meeting which will be composed of reports by both technical panels, a discussion of a second defined contribution pillar, tax policy regarding retirement savings, the extent of the tax base and a discussion of longterm financing alternatives. He then summarized the areas to be presented in this meeting:

1) How should the system treat one-and two-earner couples (i.e. the conflict between two kinds of allocational units - the individual or the family/couple.);
2) Given a fixed amount of resources, how much does one allocate to the young/old (in their 60s) and the old/old (late 70s and 80s);
3) How should the system deal with divorce, especially if family continues to be the allocational unit?;
4) Should income be redistributed across income distribution (vertically) and if so, how. This touches on the issue of marginal rates of return on additional work.

Chairman Gramlich then introduced Steven Sandell, DHHS, who would lead a discussion of summary proposals.

<u>Presentation on Benefit Structure Alternatives by Steven Sandell, Office of the Assistant Secretary for Planning and Evaluation, DHHS</u>

Steven Sandell presented proposals that deal with two general policy developments: 1) improving the equity of treatment of people in Social Security, particularly between one and two earner couples; and 2) maintaining adequacy of Social Security benefits, particularly for women. (See attached for summary of proposals).

Mr. Sandell explained that most of the developed proposals were cost neutral over a 75 year period. Some proposals would make an across the board reduction in benefits, usually as a percentage reduction in the Primary Insurance Amount (PIA). The first set of proposals used horizontal equity to address the differences between one earner couples and two earner couples and survivors of these couples. According to Mr. Lindeman, these proposals raise not only the question of equity but also how one relates to issues of household equivalency scales across the lifetime of a couple and then survivor. Chairman Gramlich commented that while the equity issue is a small percentage of spending it is an important issue in the scheme of things, so it may be able to be folded into some larger changes.

After discussion of the effects of these changes on widows and couples the Advisory Council agreed that they liked the direction of equivalency scale research and that they would fine tune their recommendations at a future date. Chairman Gramlich completed this portion of the discussion with the conclusion that the Council members liked the structure of the proposals where the spouse benefit was 33% of the couple's benefit and the widow's benefit was somewhere between 67%-75%.

The next group of proposals focused on ways to increase benefits for certain groups of retirees such as widows, the old/old, or divorced spouses. After a detailed discussion of this group of proposals, the Council members decided to keep on the table the proposal to reduce couple's benefits by 10% and use proceeds to increase survivors' benefits and to discuss if this should be a mandatory or optional change.

During a discussion about changing the retirement age, Advisory Council Member Edith Fierst suggested looking at some combination of age and years of experience in covered employment as a basis for early retirement.

<u>Presentation on Targeted Proposals by Peter Wheeler, Director, Office of Research and Statistics, SSA</u>

Peter Wheeler discussed proposals targeting older widows, divorced spouses and the old/old (80+). These are the beneficiary groups that tend to experience higher poverty rates than elders in general, particularly aged widows. Advisory Council Member Robert Ball reminded the Council that any changes made to Social Security should be in concert with the underlying principles of the program. Mr. Wheeler stated that his proposals are in keeping with the principle of providing economic security to the most vulnerable groups. Several Council Members suggested that SSI might be the more appropriate place to address these problems. Advisory Council Member Fierst expressed concern that the average SSI payment was below the poverty level and asked if there were any reason, other than cost, for not raising it to the poverty level.

<u>Presentation on Earnings Sharing by Maryanne Prucnal, Office of Legislation and Congressional Affairs, SSA</u>

Marian Prucnal discussed earnings sharing at divorce to take the place of the current divorced spouse and surviving divorced spouse benefits. This would occur by giving a divorced person credits for years of marriage in addition to his or her own working earnings when unmarried.

Mr. Lindeman noted that it is very difficult to graft this type of program onto the already existing benefit structure. Chairman Gramlich agreed that this would be a problem and asked if there was any way to develop a type of reverse annuity whereby the divorced spouse (who receives 50% of a worker's benefit while her ex-husband is alive and 100% of a worker's benefit once he dies) can receive an advance on the larger benefit that she will receive once her ex-husband dies. Advisory Council Member Mark Twinney pointed out that with this method, the benefit is lowered in the old age period when the income problems are more severe and there is the greatest risk of poverty.

Mr. Lindeman then gave a presentation on different ways that benefits in the system can be redistributed by either going to some variation of a double deck system or to a simplified two bracket system. He outlined several reasons for wanting to make such changes including achieving balance between one and two earner couples, particularly to compensate for differences in life expectancies between higher and lower lifetime earners and wanting to undo some of the collateral effects of some of the horizontal equity proposals. The Council may want to consider these proposals if there were interest in redistributing to people who have lower lifetime earnings. Council Member Ball noted a concern about proposals that would make Social Security more progressive than it currently is and would not want to make it any worse with respect to the high wage earner.

Presentation on Investment Alternative and Budget Treatment Options by Advisory Council Member Thomas Jones

Advisory Council Member Thomas Jones began his presentation with the premise that if Social Security were a private business looking at the same type of long term financing problem, it would not start with the options of either increasing the company contribution rate (taxes) or hurting its people (reducing benefits). It would try to achieve greater efficiency within the way the retirement plan is managed and to see if the assets already committed to the plan could achieve more in terms of generating a higher level of wealth to finance the benefits that have been promised to employees (beneficiaries). Mr. Jones pointed out that between 1926-1993 the total return of the S&P 500 is, on average, 10.3% per year compared to 5.3% per year for the intermediate government bonds.

Without advocating a particular plan, he went on to present four alternative investment models for illustrative purposes. They are:

1) Invest 8% of the trust fund balance in equities and in succeeding years take 8% of the net positive cash flow into Social Security and invest that in equities as well. According to Mr. Jones, this would generate the equivalent of $1.2 trillion of additional assets and keep the trust fund solvent until 2030.

2) Same as above with a 15% initial investment. According to Mr. Jones, this would generate the equivalent of $1.9 trillion of additional assets and keep the trust fund solvent until 2032.

3) Same as above with a 21% initial investment. (21% is the maximum you can take out of the beginning trust fund balance and still maintain a one year reserve in the trust fund in treasuries that are equal to at least the projected one year benefit payment requirement). According to Mr. Jones, this would generate the equivalent of $2.7 trillion of additional assets and keep the trust fund solvent until 2034.

4) Invest 21% of the initial trust fund balance and then invest 50% of the net positive cash flow into Social Security and invest that in equities as well. According to Mr. Jones, this would generate the equivalent of $4.4 trillion of additional assets and keep the trust fund solvent until 2036.

Mr. Jones emphasized the time sensitivity of these alternative investment policies. These estimates are made on the assumption of immediate enactment; if enactment waits until the year 2000, the equivalent tax increase of 3.2% (to 15.4%) would be needed to achieve the same wealth effects as under option 3 (the 21%/8% investment strategy) with immediate adoption.

Barry Bosworth, Brookings Institution

Barry Bosworth began his presentation by pointing out that currently 5% of the nation's income is spent on Social Security and that under the pessimistic scenario that will rise to 9% in 2070 due to a combination of the large baby boom generation and the tendency for people to live longer. Mr. Bosworth suggested that the Social Security trust fund can be restored to actuarial balance by taking action sooner rather than later. He advocated doing this with a payroll tax increase (2%) that would increase the fund immediately and then invest the increase for a higher rate of return through partial investment in the private sector. This would earn 1% more rate of return than it now does. The net result is that the Social Security system under the current projections is funded forever.

Council Member Ball argued that Mr. Bosworth's proposal to increase the payroll tax by 2 percent is politically unrealistic. He advocated postponing the tax increase until 2019 when the Trust Funds reach their maximum accumulation. Mr. Bosworth responded that waiting until that time does not deal directly with the financing problem.

Stephen Zeldes, Wharton School of Business and Technical Panel Member

Stephen Zeldes raised several issues in his presentation on investing the Trust Funds: There is a trade-off between risk and return; who bears the residual risk if the private pension plan invests in stocks (either taxpayers or future beneficiaries); will shifting to stocks make households better off in terms of risk and return; will shifting to stocks increase the economy's future resources; will it preserve the solvency of Social Security; and should the Trust Funds be privatized.

Mr. Zeldes noted that investing the Trust Funds in the stock market is not a magic solution for fixing Social Security's solvency problems due to the volatility of the stock market. It exposes taxpayers and /or beneficiaries to greater risks in addition to greater expected returns as the higher the expected returns of an investment are the higher is the accompanying risk (volatility). According to Mr. Zeldes, market investment will not dramatically alter the resources available to society in the future unless it changes national saving behavior although it may help some who want exposure to the stock market get that better risk-return trade-off that seems to exist. He concluded with the statement that privatization may be promising but needs more study.

Letitia Chambers, Chambers Associates

Ms. Chambers began her presentation with a short history of how the Social Security Trust Funds have been treated in the Federal budget. She pointed out that until 1969 when the Johnson Administration adopted the Unified Federal Budget, Trust Funds were accounted for separately within the budget. The 1983 Social Security amendments further changed the nature of the Trust Funds by switching from a strict pay-as-you-go system to one of partial advance funding. Soon after, large surpluses began to accumulate in the Trust Funds. Today, the total Trust Fund surplus is subtracted from the total budget deficit. Social Security appears only as a footnote in the Federal budget. In this way, the amounts of the Trust Funds mask the actual amount of the Federal budget deficit.

Ms. Chambers then pointed out that one-third of all interest payments made by the Federal Government go to the Trust Funds. However, it does not affect the bottom line of the budget because in a unified budget, interest paid to the trust funds is subtracted out of total interest. The decision for a "net interest" was made in 1967 when the Trust Funds held no substantial surpluses and therefore required no substantial interest payments.

Ms. Chambers final topic was the relevance of the Balanced Budget Amendment. The language of the bill may have implications far into the future. The amendment would change the way the government defines debt. Debt is currently defined as the sum of the debt owed to the public and the debt owed to the Trust Funds. The amendment defines debt as the debt owed to the public - the debt owed to Trust Funds is not mentioned. Ms. Chambers argued that this does not have serious consequences in the short term, but that it sets up a situation in which the debt owed to the Trust Funds could some day be subordinated to the debt owed to the public.

Joyce Manchester, Congressional Budget Office (CBO)

Ms. Manchester reminded the Council that last year the CBO issued a paper that held that it does not do any good to change the investment policies of Social Security in an unfunded system (pay-as-you-go). From the perspective of the well-being and the financial welfare of future retirees, the most important thing to worry about would be national saving. In a funded system, however, the amount of resources available to people (retirees as well as workers and their dependents) to be consumed in the future could be increased through such changes. So, a benefit of the Bosworth plan is that you increase national saving, and also capture some of the added return for the Social Security system in order to avoid future tax increases.

General Discussion

The Council held a discussion on the role of Social Security in the Federal Budget and investment policy. The discussion on the federal budget concluded with Council members generally agreeing to the theory of removing Social Security from the Federal Budget.

Several Council Members indicated that proposals to increase the payroll tax are politically unrealistic, especially in light of the needs of Medicare and other federal programs. Council Member Ball argued that Social Security funds should not be place in private individual accounts because funds would not be available for redistribution. He also argued that retirement income could be threatened if individuals were able to use private accounts to subsidize periods of unemployment before retirement. Council Member Ann Combs stated that she believed that younger workers would have more confidence in the system if they thought the funds were invested in a privatized system.The discussion ended on the note that it was the general consensus of the Council that most might be willing to accept a more diversified investment plan if there were a way to couple added national saving with some type of investment plan that provides a better rate of return.

Executive Director David Lindeman closed the meeting by reviewing several tax increase and benefit reduction options. Council Members agreed to table further discussion of options to a later date.

*Saturday, February 11, 9:09 a.m. - 11:54 a.m.; **OPEN SESSION***

Presentation on the Relation of Morbidity and Mortality to the "Young Old" and to Older Women by Eileen Crimmins, Andrus Gerontology Center and Technical Panel Member

Eileen Crimmins spoke on three demographic trends: 1) the relationship between mortality and morbidity; 2) disability trends among older workers; and 3) how men and women differ in relative health or disability.

Ms. Crimmins pointed out that since the 1980s, there had been an increase in life expectancy, as well as a decrease in rates of disability. has been Therefore, because women have a higher life expectancy than men, there tend to be more disabled elderly women relative to men. Though the onset of disability has also been postponed to later years, there appears to be little change in the extent of active life expectancy without dependency.

Presentation on Ethnic and Social Differences in Mortality and Life Expectancy by Samuel Preston, University of Pennsylvania and Technical Panel Member

Mr. Preston spoke on the social differences in mortality rates. His presentation identified two ways (racial/ethnic difference and levels of education) in which social status is measured and how that affects mortality rates. Mr. Preston pointed out that Asians in general, and Asian-Americans in specific, have much lower mortality rates than do other races. Hispanics also have a relatively low mortality rate. Whites and African-Americans both have higher mortality rates than the previous groups. Regarding levels of education, Mr. Preston pointed out that there is a 7.7 percent reduction in age-related death for every additional year of schooling. Therefore, increasing the retirement age would have the most negative impact on African Americans and those with fewer years of schooling.

General Discussion

The Council Members discussed the composition of the March Advisory Council Meeting. They asked the Assumptions and Methods Technical Panel to recommend the type of data and research needed to be carried out by SSA.

SUMMARY OF PROPOSALS[1]

PROPOSALS THAT ADDRESS HORIZONTAL EQUITY, Memorandum I, presents four proposals that improve equity for two-earner compared to one-earner couples. It is well known that compared to one-earner couples two-earner couples and survivors from those couples receive lower benefits for the same total lifetime earnings. All proposals change the way benefits for widows are calculated. Two also change the spouse benefit, and one changes the Social Security benefit structure so it is similar to private pensions. Because all of the proposals increase benefits for at least some widows from two-earner couples, they reduce their poverty rates and improve their economic well-being.

S33W75 Spouse benefit reduced to 33 percent; survivor's benefit 75 percent of new couple's benefit; Reduce PIA amounts by 1.5 percent.

S33W67 Reduce spouse benefit to 33 percent; pay survivor higher of worker benefit (current law survivor's benefit) or 67 percent of couple's benefit. (No PIA reduction).

S50W75 Current law spouse benefit; survivor's benefit 75 percent of couple's benefit (unreduced); Reduce PIA amounts by 4.1 percent.

WJS Worker Only Benefit with Mandatory Joint and Survivor Benefit: pay married workers 80 percent of PIA; eliminate spouse benefit pay surviving spouse 65 percent of own PIA and 65 percent of deceased spouse PIA; Increase PIA amounts by 18.2 percent.

PROPOSALS TO INCREASE THE BENEFITS OF CERTAIN GROUPS, Memorandum II, considers proposals that alter the benefits of groups of retirees. Some of the groups (widows, the very old, divorced spouses) have substantially higher poverty rates than the elderly population as a whole. Proposals in this group include: reduce couples benefits and use the proceeds to increase survivors benefits; raise the earliest age people can claim benefits; raise the annual increase in benefits for retirees; target higher benefits for older widows, divorced spouses or the very old.

(FB65) Increase earliest eligibility age (This proposal is simulated by giving each widow an unreduced benefit.)

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1. The parameters of the proposals are developed so that the 75-year cost of each proposal is approximately zero. In some cases there is an across the board reduction in benefits to pay for the proposal. Those reductions, expressed as percentage reductions in the PIAs are noted.

Reduce benefit formula/increase colas Because it is expected that wage increases in the future will outpace price increases, using a wage index to adjust post-retirement benefits would increase the real value of benefits of older retirees. The factors in the benefit formula by 11 percent (from (90, 32, 15) to (80.1, 28.5, 13.3)).

(10%) Reduce couples' benefits by 10 percent and use proceeds to increase survivors' benefits.

(RW10%) Reduce the couples' benefit to 150 percent of the higher earnings spouse's PIA. Use the proceeds to finance higher survivor's benefits.

Targeted proposals:

I Provide a one-time benefit increase to all beneficiaries aged 80 and over that would increase their basic benefit by the lesser of (a) 5 percent, or (b) the amount necessary to raise it to the poverty threshold.

IIA Increase the basic benefit for widow(er)s age 80 and over by the lesser of (a) 5 percent or (b) the amount necessary to raise the basic benefit to the poverty threshold.

IIB Eliminate the Widow(er)s limit for beneficiaries age 80 and over. (The widow (er)s limit is the actuarial reduction in survivors' benefits associated with the early retirement of the deceased worker.)

IIIA Increase the benefit rate for divorced spouses (currently 50 percent of the basic benefit) for 1 percentage point for each year of marriage to the worker in excess of 10 years, up to a maximum of 75 percent.

IIIB Increase the amount of a divorced spouse's benefit at age 70 from 50 percent of the basic benefit to the lesser of (a) 75 percent, or (b) the amount necessary to raise it to the poverty threshold.

EARNINGS SHARING AT DIVORCE, Memorandum IV, discusses a proposal for earnings sharing at divorce. The proposal equally divides Social Security covered earnings at divorce between husbands and wives for years of marriage. The workers' benefits would be computed using earnings before and after the marriage and the shared credits from the marriage. When a divorced person dies, all credits acquired during the marriage would be credited to the earnings record of the surviving spouse (inheritance). Benefits for any subsequent spouse would be based on the divorced worker's altered-by-sharing earnings record.

PROPOSALS THAT ADDRESS VERTICAL EQUITY, Memorandum III, examines proposals that affect the "vertical" distribution of benefits. It examines variants of a double-decker benefit structure. All vested participants and their spouses would receive a first tier benefit; the second tier would depend on lifetime earnings. It also presents variants of a two-bracket benefit structure. These proposals affect the distribution of benefits to the extent the proposed benefit structures change the bbenefits for people with different levels of lifetime earnings.

Two-Tier Options

DD1. If half of the payroll tax finances the bottom deck, and the other half the top deck, then the formula for a worker retiring at age 65 (or, later, as the NRA increases) would be: $400 per month plus 22 percent of AIME (average indexed monthly earnings). Spouse and widow benefits would be calculated as now, but using this formula instead.

DD2. If two-thirds of the payroll tax finances the bottom tier, and one-third the top tier, then the formula for a worker retiring at the NRA would be: $533 per month and 14.7 percent of AIME.

DD3. If the entire payroll tax were used to support just a one-tier benefit, then the formula would be: $800 per month.

Two-Bracket Options As with the two-tier options, these two-bracket options generally follow current law in all other respects.

WF1. If half the payroll tax is used to finance a bottom bracket that covers earnings below the average, then the resulting formula is: a 50 percent replacement up to average earnings, and a 21 percent replacement rate on above-average earnings.

WF2. If half the payroll tax is used to finance a bottom bracket that covers earnings only up to one-half average earnings, the resulting formula is: a 69 percent replacement up to one-half average earnings, and a 21 percent replacement rate thereafter.

WF3. If two-thirds of the payroll tax is used to finance a bottom bracket that covers earnings below the average, then the resulting formula is: a 52 percent replacement up to average earnings, and a 14 percent replacement rate on above-average earnings.

WF4. If two-thirds of the payroll tax is used to finance a bottom bracket that covers earnings only up to one-half average earnings, the resulting formula is: a 77 percent replacement up to one-half average earnings, and a 14 percent replacement rate thereafter.

WF5. If the bottom 90 percent replacement rate under current law is extended upward to 40 percent of average earnings and the top 15 percent replacement rate of current law is extended downward to that level, today's middle 32 percent bracket would be eliminated entirely.

Chart 1

Social Security Benefits for Couples and Widows (in dollars) 1990 Benefit Formula

	COUPLE ONE Husband's AIME 1,000 Wife's AIME 0		COUPLE TWO Husband's AIME 834 Wife's AIME 166		COUPLE THREE Husband's AIME 667 Wife AIME 333		COUPLE FOUR Husband's AIME 500 Wife's AIME 500	
	Couples Benefit	Widows Benefit	Couples Benefit	Widows Benefit	Couples Benefit	Widows Benefit	Couples Benefit	Widows Benefit
Current Law	846	564	765	510	757	458	808	404
(S 33, W 75)	738	554	667	500	745	559	794	596
(S 33, W 67)	750	564	678	510	757	507	808	541
(S 50, W 75)	811	608	733	549	725	543	774	580
(WJS)	532	432	620	505	714	580	760	618
(10%)	761	687	689	621	681	568	727	521
(RW 10%)	846	564	765	510	687	560	606	697

1994-95 ADVISORY COUNCIL ON SOCIAL SECURITY

Fifth Meeting

Sheraton City Centre Hotel
1143 New Hampshire Avenue
Washington, D.C.

January 27, 1995

MINUTES
FINAL

Friday, January 27, 8:55 a.m. - 3:41 p.m.; ***OPEN SESSION***

Members present: Edward Gramlich, Robert Ball, Ann Combs, Edith Fierst, Gloria Johnson, Thomas Jones, George Kourpias, Sylvester Schieber, Gerald Shea, Marc Twinney, Fidel Vargas and Carolyn Weaver. In addition, Derrick Max represented Carolyn Weaver in the morning.

Advisory Council staff: David Lindeman, Executive Director, Daniel Wartonick, Wayne Sulfridge, Steven Sandell and Arlene Berger.

In addition, approximately 25 members of the general public were in attendance.

Chairman Edward Gramlich opened the meeting by asking David Lindeman to review the documents that were distributed to each Council member prior to the meeting. Chairman Gramlich then introduced himself and invited all members to introduce themselves. He then introduced Joseph Quinn and Olivia Mitchell, the co-chairs of the Trends and Issues in Retirement Savings Panel, who would be presenting the panel's preliminary report.

Presentation: Preliminary Report of the Trends and Issues in Retirement Savings Panel by Panel Co-Chairs Joseph Quinn, Boston College and Olivia Mitchell, University of Pennsylvania

Joseph Quinn began with an introduction and overview. He discussed the document that the panel is preparing for the Council, stating that it will be composed of several chapters on trends in the labor market, pensions, savings and in the wellbeing of Americans of retirement age. There will be several chapters discussing and relating proposals on retirement savings and dealing specifically with Social Security and the broader environment in which Social Security lies. The discussion at this meeting will deal with several proposals dealing with OASI and the Social Security funding gap (proposals to raise future Social Security revenues or lower future Social Security expenditures).

Mr. Quinn ended his introduction by raising 4 key points. First, the technical panel thinks that timing is crucial and recommends that whatever is done be done sooner rather than later. Second, future growth rates of the economy will play a major role in the decision making process and also in the outcomes of the decisions. Third, many of the proposals under consideration involve changes in the normal or early retirement age and it is important to remember that while these proposals may seem similar, their effects may be very different. Fourth, it will be necessary to look at the labor market distortions and determine whether the whole level of insurance and labor market distortion is too high or too low.

Olivia Mitchell began her presentation with a warning that the work being presented is still in the preliminary stages and does not represent the final view of the technical panel. She then previewed three general discussion topics. First, she pointed out that work and retirement trends are to retire early -- at about age 62. This is seemingly made possible through generous Social Security benefits. Ms. Mitchell said this trend to early retirement will not be reversed without changes in the benefit formula. Second, private pension plans currently cover about one-half of the civilian employed population, but there is little chance to expand without changes in the pension structure. Fewer employers are willing to take on the expense of a defined benefit plan, and participation in private plans among men is dropping. Third, savings rates are too low and need to be improved, however, they probably will not respond to *modest* policy changes.

Chairman Gramlich encouraged the technical panel to emphasize the disaggregate dimension of this presentation.

<u>Presentation: Evaluation Criteria and Other Specific Options by Joseph Quinn and Gary Burtless, Brookings Institution</u>

Mr. Quinn listed six criteria that the technical panel uses to evaluate policy options: 1) adequacy of retirement income; 2) insurance against income fluctuations; 3) avoidance of labor market inefficiencies; 4) equity of lifetime Social Security taxes and benefits; 5) encouragement of national savings; and 6) strengthening the financial integrity of retirement income systems.

Technical panel member Gary Burtless began his presentation by using these criteria to evaluate two model programs -- one large and one small. The large program would assume future tax rate adjustments to keep pace with increasing benefits. The small system assumed benefit adjustments to keep the current tax rate constant.

Mr. Burtless listed four options for a small system to be effective: 1) lower the primary insurance amount (PIA), 2) raise the normal retirement age, 3) impose means tests, and 4) introduction of a "double-decker" system through a change in the PIA formula. For a large system to be effective, at least one of the following need occur: 1) the taxable earnings base -- including fringe benefits -- could be raised, 2) general revenues could be introduced, or 3) a combination of benefits formula changes could be implemented with the introduction of a defined contribution pension plan. Any changes made must be evaluated in terms of the different generational consequences that could occur.

Mr. Quinn pointed out four distinctions between an increase in the taxable earnings base and an increase in the payroll tax. First, by taxing higher earnings, the contributor's average income monthly earnings (AIME) increases, therefore yielding higher future benefits. Second, an increase in taxable earnings applies to fewer people and is more progressive. Third, an increase in taxable earnings translates into higher marginal tax rates. Fourth, an increase in the taxable earnings base would decrease national savings. Mr. Quinn concluded by pointing out that the major distinction between an increase in the payroll tax and an increase in the taxable earnings is on whom it falls in the income distribution.

<u>Commissioner Shirley Chater, Social Security Administration (SSA)</u>

Social Security Administration Commissioner Shirley S. Chater addressed the meeting about the progress of SSA independence. Commissioner Chater emphasized the importance of the Advisory Council's work and thanked the technical panel members for the time and effort they are putting into their work.

Presentation: Preliminary findings from the Technical Panel on Assumptions and Methods by Panel Chair Howard Young and Panel Member David Cutler

Mr. Young began his presentation with a brief discussion of the organization of the technical panel on assumptions and methods. The panel is divided into four subpanels. One each for economic assumptions, demographic assumptions, variability in cost estimates, and methodology and presentation. He then outlined several findings of the technical panel: 1) Continued use of the current inflation assumption and that if changes are to made they should not be made until after any revisions are made to the CPI rather than trying to anticipate what revisions might be made; 2) No changes in the wage differential; 3) The real interest rate assumption should be 2.5 percent annually; 4) No changes should be made to the immigration rate assumptions or unemployment assumptions. The panel has not yet made a determination on the mortality assumptions and labor force participation rates. The panel anticipates increases in fertility and marriage rates, and a decrease in divorce rates.

Mr. Cutler clarified various opinions within the academic community on wage level projections. He pointed out that some economists believe that several significant economic events (oil crises, international competition, corporate downsizing, etc.) render the past 20 years a problematic basis for projections.

Discussion of March Public Hearings

Daniel Wartonick, Advisory Council staff, updated the Council on progress concerning the upcoming public hearings to be held on March 8 - 9, 1995 at the National Rural Electric Cooperative Association (NRECA) conference facility. Special thanks go to Lana Kilty, NRECA for arranging for the free use of the space. Included in the members packets were proposed panels and a list of witnesses derived from suggestions from the Advisory Council and the SSA Office of Public Affairs. The list represented the Washington, DC, community that would be interested in testifying. The panels are broken down into four categories, two each of business, labor, economists and actuaries, and public policy representatives. Mr. Wartonick explained that the goal is to have each panel represent a wide spectrum of ideas but not to be confrontational. He then asked the Council members to let him know if they had any names to add to the invitee list and if they had any opinions on the design of the panels. Before the discussion concluded, Advisory Council Member Thomas Jones expressed the concern that the panels be representative of different ethnic groups in society.

The Council debated the merits of panels composed of similar groups (i.e. a business panel and then a labor panel) or mixed groups where each panel is composed of representatives from different constituencies (labor and business on one panel). The Council decided to leave the panel formatting up to the staff and that they would send names of additional invitees to Mr. Wartonick.

Mr. Lindeman concluded the meeting by reviewing the last items on the agenda. The first is a memo by Steven Sandell outlining benefit structure issues that the Council has discussed in the past such as the one earner/two earner couples issue and if benefits should be weighted toward the later period of people's retirement rather than the first period. A second memo, to be updated shortly, reviews ways to alter vertical distribution of benefits. In a final memo to be mailed to the Council, Mr. Lindeman drew conclusions on a set of paradigms of alternate benefit schemes that preserve today's benefit structure under current assumptions and looked at different funding options. Mr. Lindeman concluded the meeting by acknowledging the help of the Office of the Actuary, in particular Steven Goss.

The next meeting of the Advisory Council will be held on February 10-11, 1995.

1994 ADVISORY COUNCIL ON SOCIAL SECURITY

Fourth Meeting

Sheraton Washington Hotel
2660 Woodley Road, NW
Washington, DC

November 18 and 19, 1994

MINUTES
FINAL

Friday, November 18, 8:51 a.m. - 4:43 p.m.: ***OPEN SESSION***

Members present: Edward Gramlich, Robert Ball, Joan Bok, Ann Combs, Edith Fierst, Thomas Jones, Sylvester Schieber, Marc Twinney, and Carolyn Weaver. In addition, Charles Bradford represented George Kourpias and Theresa Ghilarducci represented Gerald Shea.

Advisory Council staff: David Lindeman, Executive Director, Daniel Wartonick, and Arlene Berger.

In addition, approximately 25 members of the general public were in attendance.

Chairman Edward Gramlich opened the meeting by introducing Council Member Joan Bok and then inviting all members to introduce themselves. He then introduced Thomas Smeeding and Richard Burkhauser who would begin the days presentations with a discussion of household equivalency scales.

<u>Presentation: "Household Equivalency Scales in the United States and other OECD Countries" by Thomas Smeeding, Syracuse University and Richard Burkhauser, Syracuse University</u>

Richard Burkhauser and Thomas Smeeding presented on the two transitions in the lives of older people: the transition from work to retirement (replacement rate) and the transition from being married to being a survivor. As a large percentage of older women who are widowed are in poverty, one must consider how much income would a survivor need to be on the same level of economic well-being as they were when they were married. In a worst case scenario where the wife draws only a widow's benefit, the replacement rate for a survivor of a one earner household is about two-thirds; where both husband and wife's earnings are about the same, the replacement rate for a two earner couple is approximately one-half. The policy question here is why should the replacement rate for survivors be dependent upon the relative incomes of husbands and wives. And if that rate is to be changed, what should that replacement be? Burkhauser and Smeeding recommend building in a bigger survivor's benefit relative to the couples benefit into Social Security at a 75 % replacement rate of the combined earning of the couple.

David Lindeman, Executive Director of the Advisory Council, asked for an indication of where they think policy regarding equivalency scales is going in the future, particularly regarding changes occurring in income level after the death of a spouse. Mr. Burkhauser stated that studies show a strong increase in the probability of poverty for women after the death of their husbands, but that one finds no change in the risk of poverty with the death of a wife. Mr. Lindeman stated that there will be a discussion and data at the next meeting regarding how to maintain relative will-being after the death of a spouse.

According to Smeeding, in other countries there is very little difference in the poverty rate between married and unmarried people. Other countries have found better ways to protect people at the bottom of the poverty scale than the United States through some combination of social insurance policy and public assistance policy. It was pointed out by several people that while poverty is an important problem and a reduction in such is a measure of success in the program, it is not the only measure the Council should use to judge program outcomes.

Presentation: "The Consumer Price Index" by Kenneth Dalton. Bureau of Labor Statistics, Department of Labor

Kenneth Dalton defined the consumer price index (CPI) as a measure that tells you what it costs today, at today's prices, to buy the same set of goods and services as was purchased in some base period in the past. The Bureau of Labor Statistics (BLS) publishes two sets of indices: the CPI-U which covers all urban consumers and represents about 80% of the population, and the CPI-W which covers urban wage earners and clerical workers and represents about 1/3 of the population. Social Security uses the CPI-W for the purposes of adjusting Social Security benefits.

Mr. Dalton pointed out that a 1% increase in the CPI generates $6.5 billion in federal expenditures, approximately half of which is Social Security. The question was raised as to whether it would have made a difference in Social Security payouts over the past decade if the CPI-U had been used in place of the CPI-W. Mr. Dalton responded that if the CPI-U had been used the difference in benefits would be no more that 2/10 of a percent. Following this, he stated that he did not know if a CPI developed specifically for Social Security beneficiaries would have a higher or lower bias than the CPI-W that is currently used. Mr. Dalton concluded his presentation with a discussion of criticisms made about the upward bias in the CPI relating to fixed weight nature, rotation bias and measurement of quality improvement in products.

At the conclusion of the discussion, Council members discussed taking a future look at the notion of annual indexing of the weights used in determining the CPI and at the use of the CPI-U for Social Security purposes.

Presentation: "Trends in Federal Taxation and Spending" by Paul Van de Water, Congressional Budget Office

Paul Van de Water presented the budget outlook through fiscal year 2004 focusing on health and retirement programs as the areas that need to be addressed in terms of future rapid growth in federal programs. He compared total Federal revenues with outlays for discretionary spending and mandatory entitlement programs (including Social Security) in terms of billions of dollars and as a percentage of gross domestic product. He also discussed medium-term economic projections for 1994-1999.

Under the deficit forecast, the deficit will grow from 3.0% of GDP in 1994 to 3.6% of GDP by 2004. (See attached chart.) Mr. Van de Water explained that in his opinion, the reason people tend to focus on the federal deficit is because the easiest way for the federal government to have a substantial effect on total savings would be to reduce the deficit.

Administrative Issues

Chairman Gramlich asked for comment on and approval of the minutes of the meeting of October 21 and 21, 1994. A motion to approve the minutes was made, seconded and passed unanimously.

The January meeting date was changed from January 20 & 21 to January 27 & 28. This change was suggested in order to accommodate some Council and technical panel members who will be attending the National Academy of Social Insurance conference on January 25 & 26.

Presentation: "The Personal Earnings and Benefit Estimate Statement (PEBES)" by Sandy Crank, Social Security Administration

Sandy Crank presented an explanation of the Personal Earnings and Benefit Estimate Statement (PEBES); he was assisted by Marlene Pegg and Barbara Jackson of SSA. According to Mr. Crank:

- SSA has been making the PEBES available to anyone who requests it since 1988;
- In 1995 SSA will begin sending SIPEBES (SSA initiated PEBES forms) to all people age 60 and over without a request and between 1996 through 1999 will send them to people as they turn 60;
- Eligible people age 25 and over will receive PEBES each year automatically beginning in the year 2000.

Mr. Crank stated that estimates are currently given in today's dollars, unlike in previous years when a 1% real wage gain was factored into the estimates. The estimates using the 1% factor did not accurately reflect either future or current dollars. According to Mr. Crank, next year the PEBES will begin to show the impact of inflation.

During a discussion regarding the wording of the letter accompanying the PEBES, the Advisory Council concluded that the form must contain some statement to the effect that the benefit listed is true under current law and that it does not take wage growth into account.

In conclusion, Mr. Crank stated that 500,000 SIPEBES were sent out this year to people between the ages of 24 to 65 as a test to determine what the impact would be on the public and with what kind of reactions SSA would have to deal. They should have the results by mid-1995. Chairman Gramlich asked Mr. Crank to report back to the Council on the results of the test mailing.

Continuation of the Benefit/Tax Options Discussion assisted by Harry Ballantine and Stephen Goss

Executive Director David Lindeman, SSA Chief Actuary Harry Ballantine and SSA Actuary Stephen Goss led an ongoing discussion of various benefit/tax options to address the long range deficit in the Social Security Program. The discussion included proposals on the following topics: retirement age, disability benefits, taxation of benefits, the OASDI and HI contribution and benefit base, and means testing. The Council discussed several proposals and requested further information from the actuaries for some of them. This discussion concluded the survey of the inventory of options constructed and discussed at previous Council meetings.

Saturday, November 19, 9:00 a.m. - 11:51 a.m.; OPEN SESSION

Members present: Edward Gramlich, Robert Ball, Joan Bok, Ann Combs, Edith Fierst, Marc Twinney, and Carolyn Weaver. Charles Bradford represented George Kourpias.

Advisory Council staff: David Lindeman, Daniel Wartonick, Arlene Berger, Steven Sandell, and Wayne Sulfridge.

In addition, approximately 15 members of the general public were in attendance.

Administrative Issues

Chairman Gramlich asked Mr. Lindeman to discuss scheduling issues. According to Mr. Lindeman the next meeting of the Advisory Council will be held on December 16 and 17, 1994 and will discuss equity and adequacy issues as well as presentations by members of the two technical panels (retirement savings panel and methods and assumptions panel). The January meeting (1/26 and 1/27/95) will feature more complete and detailed presentations by the panels. In February we will hold public hearings on the 9th and 10th. The last meeting scheduled to date is on March 10 and 11, 1995. The goal is to have the report ready by the end of June; therefore proposal formulation and the decision making process must begin in March or April.

Presentation: The Social Security Disability Insurance Program" by Lawrence Thompson, Principal Deputy Commissioner, SSA, with comment by Jane Ross, General Accounting Office (GAO) and David Koitz, Congressional Research Service (CRS)

Lawrence Thompson, Principal Deputy Commissioner for SSA, explained that the purpose of this presentation was to provide an overview of the following areas: the complex disability determination process which was designed in the 1950's, disability program trends, rationale behind program increases, and future changes. In addition, Mr. Thompson also discussed the 5 step appeals process and why the allowance rates vary; the Administrative Law Judges (ALJs) and the Administrative Procedures Act; work incentives for those on disability; the Bellman Review process; the increase in the number of applicants; the Reengineering Process (to reduce the complexity of and the length of time it takes for the disability process); Childhood Disability; and the differences between the DI and SSI programs.

Jane Ross of the GAO commented on the need to rethink the following 4 issues: outdated program design; questionable validity and reliability of disability determinations; the poor record of return to work; and the pressure to get Social Security involved in Social Services and not just cash programs.

David Koitz of the CRS discussed the fact that program usage has gone up 50% since 1985 while the population as a whole has increased only 7%. Mr. Koitz expressed concern about whether the system is set up to handle the increase that will occur as the baby boomers age and about the primary mandate of the program: cash program versus a "social work" type of program. He also expressed the concern that if early retirement is still set at 62 when the normal retirement age is raised to 67, an incentive will be created to go on disability because a recipient would receive 25% more benefits with a disability award at age 62 than taking retirement.

Chairman Gramlich concluded the meeting by thanking the three presenters and by asking for a consensus from the Advisory Council regarding the level of detail into which they want to go concerning disability issues. After discussion, the Council decided not to launch a full scale examination of the disability program.

The next meeting of the Advisory Council is scheduled for December 16 and 17, 1994.

1994 ADVISORY COUNCIL ON SOCIAL SECURITY

Third Meeting

Sheraton Carlton Hotel
923 16th and K Streets, NW
Washington, DC

October 21 and 22, 1994

MINUTES
final

Friday, October 21, 9:40 a.m. - 5:05 p.m.; ***OPEN SESSION***

Members present: Edward Gramlich, Robert Ball, Ann Combs, Edith Fierst, Thomas Jones, George Kourpias, Sylvester Schieber, Gerald Shea, Marc Twinney, Fidel Vargas, and Carolyn Weaver.

Advisory Council staff: David Lindeman, Daniel Wartonick, and Arlene Berger.

In addition, approximately 30 members of the general public were in attendance.

Chairman Edward Gramlich opened the meeting by introducing George Kourpias, who was unable to attend the previous meetings, and then invited all members to introduce themselves.

Approval of the Minutes of July 29, 1994

Chairman Gramlich noted that each Council member had a copy of the draft minutes which had been amended following comments made by Advisory Council Member Carolyn Weaver concerning the role of the technical panel. He then asked for discussion of the amended minutes of the meeting of July 29, 1994. A motion to approve the minutes was made, seconded and passed unanimously.

Chairman Gramlich commented that it would be helpful to talk about trends in the earnings distribution because it may affect projections of real wage growth for the long run. Sheldon Danzinger worked extensively with these trends and was invited to speak about them to the Council.

Presentation: "Trends in Earnings Distribution" by Sheldon Danzinger, University of Michigan

The theme of this presentation is how different the past two decades have been in terms of real wage change, family income change and particularly the situation of the least skilled in the last two decades than in the 25 years following World War II. The median family income rose rapidly (doubled) in the post-war period but increased only 3% recently. He noted, however, that in all periods (1949-1992), the elderly have fared better than the non-elderly. In the period after 1973, Social Security policy helped to maintain the real income of the elderly during a period when real wages were not increasing.

While High School graduates (primarily male) working full time comprise the group hardest hit, families are doing better because wives are working. Wives earn roughly on average half of what their husbands earn compared to less than half in previous cohorts. The Social Security implications of this are that the spouse benefit eventually may become irrelevant in two earner couples. In some sense the income data look better than the earnings data because it is now taking two earners to keep the family income growing. Advisory Council Member Sylvester Schieber pointed out that in the past changes in Social Security have been financed by taxing a little bit more of a growing family income. If the family income is no longer growing, the tax becomes a negative burden on disposable income.

Chairman Gramlich indicated that the Council may have to recommend some changes in the general direction of austerity as it begins reviewing the long-term assumptions; there may also be some recommendations regarding redistribution.

Presentation: "A Review of Current Trust Fund Assumptions" - by Stephen Goss, Office of the Actuary, Social Security Administration, John Hambor, Office of Economic Policy, Department of the Treasury, and David Lindeman, Advisory Council.

John Hambor opened his presentation by stating that since the 1983 Social Security amendments went into effect, trust fund annual reports have been showing, over the 75-year projections, trust fund ratios shrinking. He attributed this to changes in economic, demographic, and several other assumptions and legislative changes. Mr. Hambor recommends that the technical panels look closely at the valuation year methods, the disability assumptions, and the methods change.

According to Mr. Hambor, the Consumer Price Index (CPI) is focused more on consumption than the General Domestic Product (GDP) inflator which includes both consumption and investment. The long-term inflation assumption actually has a positive effect if the inflation rate increases because of the lag between the wage adjustment and the price adjustment in the system. With respect to health care, Mr. Hambor said that the CPI has some upward bias in it because of quality issues.

Advisory Council Member Robert Ball noted that when you start with an index that closely reflects the true cost of living but continually introduces an upward bias, the recepient is treated differently depending upon the time in which this person enters or leaves the Social Security rolls. This can result in too large a cost of living increase to a large part of the population. Mr. Hambor noted with interest that the unemployment rate is a short-term assumption and has virtually no impact on the long-term assumptions. In terms of elder workers, analysis indicates that increasing the normal retirement age without increasing the earliest eligibility age has a very small effect on the age up to which people will actually work.

Stephen Goss pointed out that people who have been on the Social Security rolls for a period of time receive only CPI increases and not wage increases which causes one to be sensitive to the real wage differential. The 1994 Trustees Report assume a 1.9% total fertility rate and an average decline in the mortality rate of 1.1% per year. Mr. Goss discussed the impact of immigration, particularly non legal immigration, and the rising disability assumption rates on actuarial assumptions.

Advisory Council Member Carolyn Weaver mentioned the increased incidence of disability awards going to young people with mental disorders and poor recovery prospects. Studies show that this causes a relatively more expensive mix of people on the rolls for a longer period of time. Chairman Gramlich suggested, and Ms. Weaver agreed, that due to the complexity of the issue 2 hours of a future meeting should be devoted to an overview of disability.

Presentation: ''A Preliminary Review of Major Long-Term financing Approaches: PAYGO vs Partial Advance Funding; Legislative Proposals by Representatives Rostenkowski and Pickle'' by David Lindeman and Stephen Goss.

Executive Director David Lindeman began a discussion of funding options for the Social Security program by reminding everyone that projections show a persistent shift in the number of workers per beneficiaries causing the dependency ratio to change. This shift will cause the cost rate to go up. The issue at hand is whether we want a pay-as-you-go system or a partially funded system that tries to build up surpluses and anticipate costs. According to Mr. Lindeman, the advantages of a partially funded system are that by increasing savings in the trust fund one can increase investment in society. Those investments lead to a larger GDP which in turn leads to higher consumption for both retirees and workers in the future.

Mr. Goss noted that a disadvantage of a partially funded system is that, for long-term assumptions, tax rates tend to increase in distant future years. It also requires a minimum contingency reserve fund of one year benefits to ensure solvency in the event of an economic downturn.

Mr. Lindeman reviewed the differences between the two pieces of legislation currently dealing with Social Security's long-term solvency. The proposal by Representative Rostenkowski relies on rising tax rates, an accelerated phase in of an increased normal retirement age (NRA) and a decrease in benefits to those with a higher income. Representative Pickle's proposal puts most of the burden on cutting the cost rate by increasing the NRA to 70 and limiting disability benefits. Mr. Schieber expressed concern that increasing the NRA would disproportionately affect the low earners and that analysis is needed of rates of return of each proposal.

Chairman Gramlich concluded the session by reviewing a number of options for increasing the solvency of Social Security and the estimated change in long-range actuarial balance resulting from each proposal. He asked Council members to consider the impact of the various options for different groups of beneficiaries before coming to any conclusions.

Saturday, October 22, 9:05 a.m. - 1:05 p.m.; OPEN SESSION

Members present: Edward Gramlich, Robert Ball, Ann Combs, Edith Fierst, Thomas Jones, Sylvester Schieber, Gerald Shea, and Marc Twinney. Charles Bradford represented George Kourpias.

Advisory Council staff: David Lindeman, Daniel Wartonick, Arlene Berger, Steven Sandell, and Wayne Sulfridge.

In addition, approximately 15 members of the general public were in attendance.

Discussion of Regional Hearings

Chairman Gramlich called the meeting to order and began with a discussion of the Regional Hearings which took place on September 29 and 30, 1994. Attendance varied among the hearings from a low of 3 people testifying in Austin and San Francisco to between 12-20 testifying in Boston, New York, Miami and Chicago. Council members came away with the impression that there was a lack of people who could speak about the larger, central issues of funding, savings, and retirement and that there is a need to encourage this discussion. Advisory Council Member Sylvester Schieber got the sense that people feel someone is "stealing" their money and diverting it from the trust fund so that it will not be there when they retire. All agreed that the general public had a poor understanding of the Social Security program and that public education is needed.

Advisory Council Member Gerald Shea asked if the Council could hear from SSA regarding its plans for public education. Judy Chesser, Associate Commissioner for Legislation and Congressional Affairs responded that a campaign on public confidence is currently being developed. She also mentioned that SSA will begin the process of sending Personal Earnings and Benefit Estimate Statements (PEBES) to people nearing retirement and that as this initiative is expanded to younger workers it would increase knowledge of Social Security. Chairman Gramlich stated that he would like to see a copy of the letter that is being sent and would like a discussion of the PEBES at the November meeting.

The Council went on to discuss holding National Hearings in Washington, most likely in February, focusing on Social Security, the retirement system and disability. The hearings could take place for two days but may go for longer if needed. Council members asked to see a draft letter that will be sent out regarding the hearings in order to offer input.

Review of Other Relevant Commission Activities

The Council engaged in a discussion concerning the upcoming report due from the Bipartisan Commission on Entitlement and Tax Reform and the impact of this report on the future of Social Security. It was decided that the Council should be prepared to issue a timely response to the Commission's report in order to clarify that the Commission is not the only group meeting on these issues. A response can be crafted at the December Advisory Council meeting if the Council decides it is warranted.

Scheduling Future Meetings

In discussing future meetings, it was decided to ask someone from the Entitlement Commission to come and give the Council a briefing prior to issuance of its report, perhaps in November. It was also decided to hold a systematic discussion of private pensions, tentatively scheduled for November or December. The Council also would like to hear testimony form the Commissioner and others about their views on the issues. Council members agreed to have Executive Director Lindeman explore the possibility of having someone from SSA, Treasury and Labor speak at a meeting in the Spring.

Retirement Age

Chairman Gramlich opened a discussion on retirement age and some options for changing Social Security. The Council discussed several options regarding the retirement age including 1) a way to predict the proportion of the period of retirement of the total life expectancy; 2) the likelihood that as you push up the NRA, a growing wedge develops between disability and OASI; and 3) whether a higher NRA would have a disproportionate impact on low wage earners. Mr. Lindeman asked that Council members to review their options and contact him with any ideas, kinds of data or empirical analysis that they would like to see.

Presentation: An Overview of Adequacy and Equity of Social Security by Steven Sandell, Office of the Assistant Secretary for Planning and Evaluation, DHHS. Peggy Trout, Office of the Deputy Commissioner, SSA, and David Lindeman.

Steven Sandell began his presentation with some general demographic and economic data on women. He noted that poverty increases by age among the elderly and the main reason for this high poverty rate is that the likelihood of becoming widowed increases. Poverty rates are relatively low for married couples but become higher for the never married, separated, divorced and widowed. It is important to keep in mind that there is a growing percentage of the population that will never marry. As the Social Security benefit is based on marital status, this will pose a problem for those never married women, especially in the black population where these numbers are higher. In terms of labor force participation, although rates for women and their annual earnings have greatly increased, women's earnings are still substantially less than those of men.

Peggy Trout described the basics of the Social Security program, the differences in men and women's worklives and the impact of marital status on benefits. The program is gender neutral with benefits based on how long you work and how much you earn. She narrowed her concerns to four primary areas: 1) Benefits for a two-earner couple may not seem fair relative to a one-earner couple; 2) Benefits may not be enough to keep widows out of poverty; 3) Caregiving can result in lower worker's benefits; and 4) Benefits for divorce spouses may not be adequate.

Mr. Sandell continued his presentation with the results of an analysis comparing census data against the Social Security benefit and earnings' records. This data enabled him to illustrate how poverty levels are related to lifetime earnings, marital status and Social Security benefits. The increased labor force participation and earnings of women is being reflected in higher benefits for the 2/3 of a woman's life that she is part of a couple. However, as future widows, 85% of women still will receive the same benefit as if they had never worked.

Mr. Sandell highlighted some other points from his study: 1) A couple is going to receive higher Social Security benefits, a widow will not. 2) On aggregate, there is not much difference between one-earner and two-earner families in terms of benefits. 3) The explanation for the aged widow poverty problem is low earning husbands, coupled with the way Social Security works. When the husband dies, the number of widows in poverty goes up to 19%. Women in two earner couples suffered greater reductions in total incomes upon the death of a spouse than women in one-earner couples.

Mr. Lindeman concluded the presentation by briefly reviewing some of the proposals that have been suggested in the past. These included earnings sharing, a double-decker system, increasing the early retirement age and restructuring proposals to reduce benefits to couples while increasing survivor benefits. Other proposals involved changing the way cost of living adjustments are used and looking at caregiving drop out years. He suggested that the Council not spend much time on earnings sharing or caregiving proposals as these have been throughly explored by others and have not proved to be workable or effective. Advisory Council Member Robert Ball stated that he would still like to see some information on earnings sharing and divorce, such as the system they have in Canada. The final set of proposals involved a targeted increase in benefits to the elderly.

Chairman Gramlich ended the meeting by thanking all those who made presentations throughout the two days. The meeting was adjourned a 1:05 p.m.

The next Advisory Council Meeting will take place on November 18 and 19, 1994.

1994 ADVISORY COUNCIL ON SOCIAL SECURITY

Second Meeting

Embassy Row Hotel
2015 Massachusetts Avenue, NW
Washington, DC 20036

July 29, 1994

MINUTES
Final

Friday, July 29, 9:00 a.m. - 12:53 p.m.; ***OPEN SESSION***

Members present: Edward Gramlich, Robert Ball, Ann Combs, Edith Fierst, Gloria Johnson, Thomas Jones, Sylvester Schieber, Gerald Shea, Marc Twinney, Fidel Vargas, and Carolyn Weaver. William Dowd represented Joan Bok.

Advisory Council staff: David Lindeman and Daniel Wartonick.

In addition, approximately 15 members of the general public were in attendance.

Chairman Edward Gramlich opened the meeting by introducing Gloria Johnson, who was unable to attend the first meeting, and William Dowd, who was representing Joan Bok. He then invited all members to introduce themselves.

Approval of the Minutes of June 24 and 25, 1994

Chairman Gramlich asked for comment on and approval of the minutes of the meeting of June 24 and 25, 1994. After some discussion, a motion to approve the minutes was made by Sylvester Schieber, seconded by Gerald Shea and passed unanimously.

Review of Other Relevant Commissions

David Lindeman brought to the attention of the Council two items that may affect the Council's behavior and procedures. These are the independent agency bill and the Bipartisan Commission on Entitlement and

Tax Reform. He explained that although the bill provides for a new seven-member Advisory Board, a provision is included for the continued existence of this Council until its task is completed. The charter was amended to allow the Council to exist through January 1996 instead of January 1995. The Entitlements Commission is going to try to get agreement on its findings by August 8, but it is encountering difficulties. Other groups, such as the NOTCH Commission and the Concord Coalition, also were discussed. Chairman Gramlich suggested that a discussion of other relevant groups be added as a standing agenda item after approval of the minutes.

Technical Panels

The Council turned to a discussion of the composition of and charge behind the technical panels. The first panel will be composed of actuaries, economists and demographers. Its charge is to review the assumptions and methodology used to project the future financial status of the old-age, survivors, and disability insurance (OASDI) programs, including, if necessary, measures of the financial soundness of these programs. The Council was concerned that the panel specifically examine the 75-year projection and determine if this is the best way of forecasting the financial soundness of the program. It is expected that the report from this panel will be an objective appraisal similar to an audit. Chairman Gramlich asked that a vote be taken on the first panel with an amendment regarding procedures and which actuaries will take part. He reiterated that anyone who wants to be consulted on participant choice should speak to him. The motion was made by Sylvester Schieber, seconded by Thomas Jones and passed unanimously.

The second panel, on trends and issues in retirement savings, is expected to raise a wide range of technical issues and policy options. Its role is to assist the Council in its charge to analyze the relative roles of the public and private sectors in the provision of retirement income, particularly how underlying policies of public and private programs, including relevant tax laws, affect retirement decisions and the economic status of the elderly. After a discussion of panel composition, Chairman Gramlich asked for a motion to accept the panel with the stipulation that a defined benefits actuary be included on the panel. The motion was made by Mr. Schieber, seconded by Mr. Shea and passed unanimously.

A discussion ensued of the wording and intent of the specific topics that the technical panels would cover. The panels are to assist the Council with fulfilling its charge by providing factual and comprehensive information. It is estimated that the Council's final report will be completed by June 30, 1995. Working backwards from there, the discussions with the technical panels should begin in January with their report to be made in early spring. Mr. Jones noted that this is the first Advisory Council to be operating in a period where there are huge trust fund surpluses accumulating. This raises the question of investment policy which has not been covered by previous Advisory Councils.

Regional Hearings and Topics of Future Meetings

The Council decided to hold hearings on September 29 and 30 in six cities: Boston, New York, Chicago or Indianapolis, Miami, Austin, and San Francisco. The ideal will be to have 3 or 4 Council members at each meeting.

Fidel Vargas suggested that the hearings be held on college campuses in order to encourage the participation of a variety of age groups that have a stake in changes made to Social Security. The primary purpose of the hearings is to introduce the existence of the Council to the regions, get people used to the idea that there may be a restructuring of Social Security, and provide Council members with the opportunity to listen to what people are saying.

As a result of the discussions and issues raised at this meeting, Mr. Lindeman suggested a list of five issues that the Council will want to set aside time to explore; Chairman Gramlich expanded this list to seven issues. They are:

1) Discussions of the results of the regional hearings
2) Social Security's overall savings policy
3) Investment policy
4) Family benefits issues - a briefing by SSA personnel
5) Incremental changes within the system - to be presented by Mr. Lindeman
6) Structural changes
7) International changes and comparisons

<u>Mr. Vargas made a motion in favor of holding the regional hearings in late September and beginning discussion of the seven issues in October. The motion was seconded by Robert Ball. The motion carried with a vote of ten (10) in favor, one (1) against (Edith Fierst).</u>

<u>Ms. Johnson made a motion that a) Chairman Gramlich and the staff make decisions regarding whether or not the Council needs to be supplemented in order to fully cover the seven (7) issues and that b) members submit participant names for consideration as soon as possible for the October and November meetings. The motion was seconded by Marc Twinney and passed unanimously.</u>

The meeting was adjourned at 12:53 p.m.

The next meeting will be held on October 21 and 22, 1994.

1994 ADVISORY COUNCIL ON SOCIAL SECURITY

First Meeting

Embassy Row Hotel
2015 Massachusetts Avenue, NW
Washington, DC 20036

June 24 - 25, 1994

MINUTES

Final

*Friday, June 24, 9:00 a.m. - 12:45 p.m.; **CLOSED SESSION***

Members present: Edward Gramlich, Robert Ball, Ann Combs, Edith Fierst, Thomas Jones, Sylvester Schieber, Gerald Shea, Marc Twinney, Fidel Vargas, and Carolyn Weaver.

Advisory Council staff: David Lindeman and Daniel Wartonick

Agency: Shirley Chater, Bonnie Doyle, David Bowersox, John Sabo, and Cathy McCullough.

David Lindeman opened the meeting and invited all members to introduce themselves. He then introduced Shirley Chater, Commissioner of Social Security, who provided greetings on behalf of herself and Secretary Shalala and a few introductory remarks.

Bonnie Doyle administered the oath of office and discussed several personnel matters including compensation, and David Bowersox addressed government ethics regulations.

The Council took up several administrative issues including agendas, minutes, meeting schedules, and the establishment of a technical panel of experts on assumptions and methods and a technical panel on trends and issues in retirement saving.

The closed session was adjourned at 12:45 p.m. for lunch.

Friday, June 24, 1:50 p.m. - 5:52 p.m.; ***OPEN SESSION***

Chairman Gramlich began the open session by introducing Donna Shalala, Secretary of Health and Human Services. Secretary Shalala thanked the Council members for agreeing to serve and discussed the importance of their mission. She indicated that the Administration is looking for a strategy that would move the Social Security program into the next century with stability for generations to come. She assured the Council that action would be taken on their recommendations.

Paul Yakoboski and Celia Silverman, Employee Benefit Research Institute, then gave a presentation on "Economic Well-Being of Today's Elderly and Those Soon to Retire." The presenters focused on sources of income of the elderly and near elderly. Council members noted that an apparent discrepancy exists between government expenditure and survey data in accounting for income from pensions, annuities and lump-sum distributions. The presenters also discussed historical pension plan coverage and participation trends in general as well as for specific groups.

Joyce Manchester, Congressional Budget Office, discussed several recent studies concerning how the baby-boom generation will fare financially in retirement as part of her presentation, "Prognoses for Baby-Boom Cohorts and Beyond." She found that although the uncertainty is great and more information is needed, it appears that baby-boomers may be as well off in real terms as their parents in retirement. The boomers may have difficulty, however, maintaining their pre-retirement standard of living. They must do more planning now and be informed of any major changes to the program sooner rather than later.

Robert Friedland, National Academy of Social Insurance, provided findings and recommendations on support for the Social Security program from his research with focus groups and telephone polls, "Public Confidence in Social Security." He indicated that while public support for the program was high, confidence in the future of the system has dropped. He recommends that the Social Security Administration must provide more information and embark on an education and public relations campaign which explains the public and private system of retirement saving.

Saturday, June 25, 9:00 a.m. - 12:30 p.m.; ***OPEN SESSION***

Members present: Edward Gramlich, Robert Ball, Ann Combs, Edith Fierst, Thomas Jones, Sylvester Schieber, Gerald Shea, Marc Twinney, Fidel Vargas, and Carolyn Weaver.

Advisory Council staff: David Lindeman and Daniel Wartonick.

Agency: Harry Ballantyne, Lawrence Thompson, John Woods.

Chairman Gramlich opened the second day of the meeting by introducing Lawrence Thompson, Principal Deputy Commissioner for the Social Security Administration. Mr. Thompson discussed some of the issues that the Council will be addressing including, long-range program financing, role of Social Security in the retirement system, equity and adequacy of benefits, and the Disability Insurance program.

David Lindeman spoke on the changing institutional environment in the private pension and saving world and such relevant policy issues as plan funding, Federal budget constraints, worker/beneficiary ratios, and the various tax regimes which target wages, the investment accumulation on savings, and /or the distribution of savings in retirement.

The last speaker of the day was Richard Hinz, Chief Economist and Director of Research and Economic Analysis for the Pension and Welfare Benefits Administration, Department of Labor. Mr. Hinz discussed the findings from the 1993 pension and health benefit supplement to the Current Population Survey which gives information and demographic data on coverage and participation rates as well as pension plan distributions.

The meeting concluded with a discussion of possible dates for the next Advisory Council meeting and a request that members interested in nominating actuaries to the assumptions and methods technical panel, provide the Chair with names for inclusion on the final list. It also was suggested that someone experienced with defined benefit pension plans be included on the trends and issues in retirement saving panel to represent that point of view.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

AMENDMENT TO THE CHARTER OF THE 1994 ADVISORY COUNCIL ON SOCIAL SECURITY

Reports

The Council shall submit reports (including any interim reports the 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.

APPROVED:

JUL 28 1994
Date

Secretary

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:

- o 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:

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.

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).

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.

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.

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.

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).

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.

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.

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.

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.

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THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

CHARTER

1994 ADVISORY COUNCIL ON SOCIAL SECURITY

Purpose

Title VII, Section 706 of the Social Security Act (title 42, United States Code, Section 907) requires the Secretary of Health and Human Services to appoint an Advisory Council on Social Security every 4 years 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 Medicare Insurance Trust Fund in relation to the long-term commitments of the old-age, survivors, and disability insurance (OASDI) program and the programs under Parts A and B of title XVIII, and for the purpose 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 the Social Security Act.

Authority

42 U.S. Code 907, Section 706 of the Social Security Act, as amended. The Council is governed by provisions of Public Law 92-463, as amended (5 U.S. Code Appendix 2), which sets forth standards for the formation and use of advisory committees.

Function

The Advisory Council on Social Security shall conduct the reviews required by title VII, Section 706 of the Social Security Act, as amended, and prepare and submit reports on its findings and recommendations. In addition, the Council should address the following:

- Financing issues, including the long-range financial status of the OASDI program.

- General Social Security program issues such as the relative equity/adequacy provided for persons at various income levels, in various family situations, and various age cohorts, taking into account such factors as the increased labor force participation of women, lower marriage rates, increased likelihood of divorce, and higher poverty rates of aged women.

In addressing the above topics, the Council may wish to analyze the relative roles of the public and private sectors in the provision of retirement income, particularly how underlying policies of various public and private programs, including relevant tax laws, affect retirement decisions and the economic status of the elderly. In doing this analysis, the Council also may wish to consider how the provisions of the disability insurance program and the availability of health insurance and health care costs affect such matters.

Structure

The Council shall consist of a Chairperson 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. Members shall serve for the duration of the Council.

Management and staff support services shall be provided by the Office of Policy and External Affairs, Social Security Administration. The Council may engage such additional technical or other staff services as may be required to carry out its functions.

Meetings

Meetings shall be held approximately once per month at the call of the chair with the advance approval of a government official, who shall also approve the agenda. A Government official shall be present at all meetings.

Meetings shall be open to the public except as determined otherwise by the Secretary; notice of all meetings shall be given to the public.

Meetings shall be conducted and records of the proceedings kept, as required by applicable laws and Departmental regulations.

Compensation

Appointed members of the 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.

Annual Cost Estimate

Estimated annual cost for operating the Council, including compensation and travel expenses for members but excluding staff support, is $209,530. Estimated annual person years of staff support required is 3, at an estimated annual cost of $286,728.

Reports

Reports of the Advisory Council's findings and recommendations (including any interim reports the Council may have issued) shall be submitted to the Secretary not later than January 1, 1995, and such reports shall thereupon be transmitted to the Congress and to the Board of Trustees of each of the Trust Funds.

Termination

The Council shall cease to exist after transmittal of its reports to Congress.

Approved:

MAR 23 1994
Date

Secretary

1994-95 Advisory Council on Social Security

ISSUE:

Deliberations of the 1994-95 Advisory Council on Social Security.

BACKGROUND:

Starting in 1971, Congress formalized the quadrennial appointment of an Advisory Council on Social Security by the Secretary of Health and Human Services. With the implementation of an independent agency in 1995, a seven-member Advisory Board will replace the Advisory Council. Secretary Shalala appointed the current 13-member Council in June 1994 (press release attached). Edward Gramlich (Ned) of the University of Michigan is the chair. The Council has set a tentative target reporting date of Summer 1995, however, the Charter does not expire until January 1996. The last Advisory Council was appointed in June 1989 and reported in December 1991.

In the Charter, the Secretary specifically asked the Council to examine the following:

- <u>Long-term financing</u> of OASDI programs;
- <u>Adequacy and equity</u> of the benefits paid to people at various income levels, age groups and family situations; and
- <u>Relative roles of the public and private</u> sectors in providing retirement income.

The Council has appointed two technical panels of experts (list attached) to provide an analytic framework and list of options relevant to the issues before the Council:

- <u>Assumptions and Methods</u> - One technical panel, composed of experts in demography, economics, actuarial science, is reviewing the assumptions and methodology used to project the future financial status of the OASDI programs.
- <u>Trends and Issues in Retirement Saving</u> - The other panel, composed of economists and public policy experts, is assisting in analyzing the relative roles of the public and private sectors in providing retirement income, particularly how underlying policies of public and private programs affect retirement decisions and the economic status of the elderly.

The two panels provided preliminary assessments of these issues to the Council in February and March 1995.

WHY IS ISSUE SIGNIFICANT?

Since this will be the last Advisory Council on Social Security appointed by the Secretary, there is particular interest in seeing a final independent assessment of the financial status of the programs before the Social Security Administration becomes independent. Also, given the heightened interest in recommendations to be made by the Bipartisan Commission on Entitlement and Tax Reform, it is clear that there will be much interest in what the Advisory Council will recommend as well on Social Security.

Current Status:

The Advisory Council has held eight meetings in Washington, D.C., and public hearings in six locations around the country as of May 1995. The meetings have been designed to brief the members on the key issues before the Council and give them a common framework from which to deliberate and make policy recommendations. The hearings were intended to solicit as broad a base of public opinion from around the country and to publicize the Council's existence.

The briefings and presentations to the Council have covered a wide range of topics and issues including the following:

- Broad overview of issues concerning Social Security, pensions and retirement saving;
- Economic well-being of today's elderly;
- Prognoses for baby-boom cohorts and beyond;
- Income distribution trends and implications for retirement income security;
- Adequacy and equity of Social Security benefits;
- Household equivalency scales and the relative well-being of the elderly;
- Consumer price index and its effect on benefit adjustments; and
- The Social Security Disability Insurance program.

Next Steps:

The Council is continuing deliberations and plans meeting in May and June in order to complete Council work later this year.

12/20 SS Adv Council

- How do we inoculate ourselves?
  - message abt personal savings
  - PIP as supplement not subst

4/4 Trustees Rpt

- Ken ⇒ mid-end March
- w/o changing structure can extend to 2055

Ellen: Council leaning twd ↑ing tax'l return

Rivlin/Stiglitz → policy not focus on how incl Δ's will fix

AM: not just 75 yrs → lkg @ move?

Areas of Agt

CPI

No Trad'l Means Testing

Future Ben Δ's should be tilted twd low-wage wkrs + non-wkg spouse

2 = ↑ Ret'ment age

State + Local wkrs – Maine, MA, TX, ... ? as to a dozen

- takes away

Pies / IRA's / PSA's
- ~~changes~~ increase deficit by 1% GDP / double
- ↓ ability of system to be progressive
- Liberty / transition tax → 1% nat'l sales tax, VAT to fill the hole
- no? penalty for withdrawal

Gramlich

-

Ball
?'s abt validity of returns
- effect on stock mkt → what happens when diversity ?
world mkt?

Ind. option → 3½% growth

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To Phil Gambino | From Julie Ashimine
Co./Dept. | Co. LA metro Area
Phone # | Phone # (213) 894-5288
Fax # (202) 402 | Fax #

Los Angeles Times

FRIDAY, FEBRUARY 16, 1996

Plan Weighed to Privatize Portion of Social Security

By ROBERT A. ROSENBLATT
TIMES STAFF WRITER

WASHINGTON—A Social Security advisory group may recommend a radical change that would permit workers to set aside part of their Social Security payroll taxes in individual accounts for investment in stocks and bonds.

The controversial proposal, if adopted by Congress, would be the biggest change in the philosophy and operation of the system since its creation in 1935.

The plan, to be unveiled next month by the Social Security Advisory Council, would leave about half the payroll taxes in the current system to provide a basic benefit and would place the rest in a personal security account, with each worker selecting how the funds would be invested.

Under the current system, payroll taxes are collected from workers and paid out as benefits to retirees. The money is invested in special issues of Treasury securities. Historically, the Treasury securities yield about 4%, compared with about 7% for corporate bonds and about 10% for stocks.

The advisory council, appointed by the secretary of Health and Human Services, is wrestling with the task of assuring long-run solvency for the retirement and disability insurance system. The trust fund, which now collects money from 125 million workers to pay

Please see BENEFITS, A18

BENEFITS: Privatizing Social Security Debated

Continued from A1

benefits to 43 million people, is projected to run short of money in 2029 to pay its obligations.

The plan could send $150 billion a year in new money pouring into stocks and bonds, an investment bonanza for Wall Street of the kind generated by the popular 401(k) salary set-aside programs.

The advantage of the new plan is that it offers the potential for significantly higher retirement benefits for workers who make the maximum contribution, those who earn $62,700 or more.

The drawback is that the new system transfers the risk from the government to the individual, whose retirement income would be likely to suffer in a stock market crash or an extended slump.

Lower-income workers probably are better off under the current system because the existing benefit formula gives them a greater subsidy from payroll taxes paid by higher-income workers. Under the new system, the government-invested part of their benefits would provide a lower subsidy.

The transition also would require either a payroll tax increase or an expanded federal deficit. If payroll taxes are diverted into individual accounts for future retirement, additional money would have to be raised to pay for current benefits.

But the appeal of the proposal could be significant to younger workers, who face the prospect of having to work longer for relatively less generous Social Security benefits than their parents and grandparents will receive.

GOP presidential candidate Steve Forbes has advocated letting younger workers opt out of the Social Security system, diverting part of their payroll taxes into investments. Senate Majority Leader Bob Dole of Kansas, the Republican presidential front-runner, this week also endorsed the idea after criticizing Forbes earlier for supporting it.

The advisory council, whose reports every four years set the tone for legislative changes in Social Security, is deeply divided over the controversial issue. Liberal and labor members could be expected to fight any such plan, which they regard as a betrayal of the basic Social Security system.

author of the proposal. But over the course of 15 or 20 meetings, "the issue kept coming up and coming up," said Schieber, a vice president of Watson Wyatt Worldwide, an employee benefits and consulting firm.

The appeal of the plan is that "everybody ends up getting higher benefits," Schieber said.

A high-wage worker born in 1970 would retire with a benefit worth $1,908 a month under Social Security, but could enjoy returns as high as $5,243 a month if the payroll taxes were invested in bonds, and $11,729 a month if all the money were placed in stocks, according to an analysis issued by the Cato Institute, a conservative Washington think tank that is a strong advocate of the proposal.

The current Social Security payroll tax is 12.4%, with workers and employers each paying 6.2% on the first $62,700 of income.

The plan under consideration at the advisory council would keep 7.4% of payroll flowing into the current system, enough to generate a monthly benefit of $360 in 1995 dollars. This part of payroll taxes also would keep the current financial protection for disabled workers and the payments to survivors of workers who die before retirement.

The second tier of retirement would be funded with the remaining 5% of payroll, called a personal security account, or PSA. It would be mandatory.

"You have to invest it in individual accounts. You can't use the money to go to the Bahamas, or eat more TV dinners," Schieber said.

Anyone 55 or older would remain in the current system, with benefits linked to the traditional Social Security formulas. All other workers would participate in the new two-tier system.

Moving to the new system would cost $1.2 trillion over 35 or 40 years because half the money that now goes directly to today's retirees would instead be set aside in individual accounts for workers to use in the future. That money would have to be replaced to pay benefits to current retirees.

Choices for financing this burden could include higher payroll taxes, with a jump from 12.4% to 16.4% of payroll, a special national sales tax or a special issue of government concept have delayed the council's report, originally scheduled for delivery at the of last

The private accounts plan has the backing of six of the 13 members on the council and could have the support of a majority when the report is issued in March, sources said Thursday. At present, the other seven members are divided between two alternative plans.

Five panelists support a proposal by council member Robert Ball to maintain the current system of mandatory tax collections and benefits, but to invest about 40% of the revenues in stocks and bonds. Two favor a third proposal calling more modest reforms.

If none of the plans gains majority approval, the council will send all three forward. But even if the private accounts plan does not win majority backing, it is expected to open a major new debate.

"For the first time we have a serious group having a serious discussion of Social Security with . . . privatization," said Robert Friedland, executive director of the National Academy on Aging, a Washington think tank.

Hardly anyone would have predicted a serious look at the proposal when the council began its discus- in 1994, said council member Sylvester Schieber, who is an

advocates of the curr system are ly skeptical about the virtues of the private accounts proposal.

"When we go down the road to privatization we undermine the universality of Social Security—we turn it into a Merrill Lynch investment program rather than a government program out there for all people," said Evelyn Morton, a legislative representative for the 32-million-member American Assn. of Retired Persons. "Having private accounts assumes that people make informed investment decisions but that is not necessarily the case," she said. "Even smart investors make mistakes."

The AARP and other advocates of the current system are more likely to favor the alternative developed by Ball, a former head of the Social Security system.

Under that plan, 40% of tax revenues would be invested in stocks and bonds—but the Social Security Administration rather than individual workers would make investment decisions, putting the money in passive investments, perhaps indexed to stock funds.

A third plan would retain the current 12.4% payroll tax structure, but add a new 1.6% tax, with the extra money flowing into individual accounts.

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EDITED BY DOUGLAS HARBRECHT

PRIVATIZE SOCIAL SECURITY? NOBODY'S LAUGHING NOW

Conservatives long have dreamed about privatizing Social Security. They argue that the massive shortfalls projected in the 21st century for Uncle Sam's retirement system can be avoided only by giving back part of Social Security's annual $400 billion tax take to individuals to invest for retirement. But elected officials—afraid to touch politics' "third rail"—never paid much heed.

Until now. Social Security privatization is about to land on Washington's center stage—launched not by the GOP, but by a panel appointed by the Clinton Administration. The panel's explosive findings portend a battle that will make the fight over Medicare cuts look like a tea party.

In a report expected out by mid-February, five of the 13 members of the Advisory Council on Social Security will endorse replacing half of the retirement plan with Personal Security Accounts (PSAs). These accounts, funded by diverting 5% of wages from the 15.3% payroll tax, could be put in stocks, bonds, or other investments. Those funds are likely to pay a higher return than the benefits today's workers can expect from Social Security. The plan's goals: boost private savings and give Generation X workers proof that the system will exist when they follow baby boomers into retirement.

SOS: *A bankrupt system by 2030*

Two more panel members are likely to support requiring workers to set up small private accounts on top of the current system. So a majority of the group will back individual accounts. An advisory panel's findings aren't binding. But the recommendations will have clout, because they're the closest thing yet to an official endorsement for "an idea that was laughed out of town in the 1980s," marvels Dallas L. Salisbury, president of the Employee Benefit Research Institute.

STRONG LURE. No one's laughing now. At least three Washington think tanks are working on privatization studies. Securities, mutual-fund, and life-insurance interests are backing some of the research, drawn by the prospect of PSA balances that could hit $60 trillion by 2035. And while no action is likely until 1997, after the election, the idea is making waves in the campaign. GOP Presidential wannabe Malcolm S. Forbes Jr. has a privatization strategy, which front-runner Senator Bob Dole (R-Kan.) charges "would end Social Security as we know it." President Clinton is also unlikely to back the plan, though the Administration won't take a stand until the report is issued.

Why the ferment? Social Security will go broke during the baby boomers' retirement years. Although annual payroll taxes now exceed benefit payouts by $60 billion, the system's cash flow will turn negative sometime around 2014. By 2030, the cushion built by today's surpluses will disappear. Worse, those operating surpluses are now parked in Treasury bonds, which help mask the true federal budget deficit. By some calculations, the payroll tax on 21st century workers might have to nearly triple, to 40%, to fill the gap. "The one thing we all agree on is that the current system can't go on," says University of Michigan economist Edward M. Gramlich, chair of the advisory panel.

Another problem: Social Security no longer delivers the fat returns that past and current retirees have enjoyed. Today's 75-year-old single man can expect to get back all the taxes he and his employers paid, with interest—plus a 75% windfall. For today's 65-year-old, the lifetime windfall shrinks to 25%. But for boomers, the oldest of whom are just turning 50, "anyone earning average or above-average wages won't even get back his or her taxes plus interest," notes benefit consultant Sylvester J. Schieber of Watson Wyatt Worldwide. Schieber helped draft the Advisory Council's PSA plan.

Even Social Security's old guard, led by the system's patriarch, ex-Social Security Commissioner Robert M. Ball, recognizes the need to boost returns. Ball and five other advisers advocate letting the government invest part of Social Security's surplus in stocks. But even Democrats quail at allowing the government to own a multitrillion-dollar stake in Corporate America.

Private accounts pose problems, too. Under the PSA plan, anyone born before 1943 would remain in the old system, while workers born between 1943 and 1968 would face a mix of old and new benefits. To pay for already earned benefits during a 70-year transition, Schieber proposes a new series of "Liberty Bonds" backed by an earmarked 1% national sales tax. At their peak, in 2050, the bonds could boost the national debt by $10.2 trillion, $1.2 trillion in '96 dollars.

Defenders of the system figure that huge price will kill privatization. They bet Congress will repeat the Social Security reforms of 1977 and 1983 by raising taxes and the retirement age and trimming benefits. "This system needs adjustment, but it's not fundamentally broken," says a White House aide.

Backers contend that tinkering isn't enough. "If you tell the American public: 'You can have a secure, funded pension, and the cost is a 1% sales tax,' they're going to think that's a pretty good deal," says Schieber. Bargain or not, that deal will soon be on the table.

By Mike McNamee

The latest push for conversion of the present system is coming from a Clinton panel

Advisers Split on Social Security Reform (Washn)

By Spencer Rich

WASHINGTON After a year of wrangling, the Social Security Advisory Council, which meets every four years to consider and recommend changes in Social Security, is split on how to avert insolvency of the $350 billion-a-year system.

One of three proposals now under consideration would radically ``privatize'' the system. It would eventually give all workers a rebate of almost half their annual Social Security payroll taxes and require them to invest it in personal retirement plans, such as Individual Retirement Accounts (IRAs) or 401(k) savings plans. Historically, stocks and mutual funds have returned a relatively high yield, and therefore these accounts could be expected to produce higher pensions than the current system provides, supporters say.

The two other programs are less radical but have stirred division within the 13-member council, which ordinarily presents the president and Congress with a single recommendation.

In fact, disagreement is so deep that chairman Edward Gramlich, a former director of the Congressional Budget Office, hinted that the council might send the White House and Congress several different options.

Although Social Security was ``fixed'' 12 years ago and was expected to stay solvent until 2062, new data and slower growth in wages now indicate solvency will end in 2030.

At a meeting last Thursday, the council took a ``tentative'' straw vote on the three proposals:

One plan had six backers. Drafted by former long-term Social Security commissioner Robert M. Ball and supported by the three labor union officials on the council, it does not call for privatization. Instead, it would basically retain the system under which the maximum benefit for new 65-year-old retirees is $1,199 a month this year, and averages $858. Money from the non-Medicare part of the payroll tax, paid by the worker and the employer, would all still go to the Social Security trust fund.

Ball relies mainly on tax and cost-of-living adjustments to make up the future Social Security deficit: corrections in the Consumer Price Index that would produce more accurate cost-of-living adjustments; higher income taxes on Social Security benefits; imposition of Social Security payroll taxes on 3.5 million uncovered state and local employees. In addition, 37.5 percent of balances in the trust fund would be invested by the government (not individuals) in stock market ``index funds'' (which rise and fall automatically with the market as a whole), yielding higher returns than the trust fund now earns from government bonds. Finally, as a ``fail-safe,'' a payroll tax increase of 1 percentage point each on employers and employees in 2050 would be written into law.

The ``privatization'' plan received five votes. It would create a two-tier benefit system.

Council member Sylvester J. Schieber said that now, about 10 percentage points of the total Social Security payroll tax of 13.3 percent half paid by employers, half by employees goes for retirement benefits. (The rest pays for disability, Medicare and benefits for children who have lost a parent.) Under his plan, only 5 percentage points of the 10 would go into Social Security for retirement pensions, and the benefit paid by the government would be cut sharply to the equivalent of about $375 a month in 1995 dollars and would be the same amount for all who worked a full lifetime. That would be the first tier.

The remaining 5 percentage points of the 10 would be given to the worker to invest in his or her own 401(k) and IRA and thus create a second tier of benefits.

All this would be phased in gradually starting with the youngest workers. To help pay for the transition, a 1 percent national sales tax would be needed for the next 75 years, plus loans from the government.

The third plan received two votes, including one from Gramlich. A sort of halfway house between the current system and the Schieber plan, this plan would provide for only 2 percentage points of the tax to go into a workers' 401(k) or IRA.

Schieber criticized Ball's plan as based on some ``highly questionable assumptions'': that the Consumer Price Index changes will occur, that added taxes on benefits will be enacted, and that Congress would allow the government to invest in huge blocks of stocks, with the possibility that politics could influence investment decisions.

Ball said, ``I am astounded that under Schieber's plan, serious consideration is being given to imposing a national sales tax for Social Security, on top of existing Social Security payroll taxes, and to greatly increasing the debt of the U.S. by borrowing from the Treasury, in order to pay for the transitional costs from the present system.''

He said that taking into account all these taxes and benefit changes, higher-income workers would make out best in relation to what they paid in under Schieber's plan. In addition, he said, there would be tremendous pressure from people who have built up IRAs and 401(k)s with their payroll tax to be allowed to use the money before retirement for health bills, school bills and houses, sharply reducing what would be left for retirement. Moreover, he said, people who made bad or ultra-conservative investment decisions or had to retire just as the market took a nose dive would be out of luck.

All this, he argued, could leave retirement protection now provided by Social Security in tatters.

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Touching the Rail

Social security has long been the third rail of American politics. But some Capitol Hill lawmakers are making noises about overhauling the program, and Washington's Cato Institute is raising $2 million from Wall Street, the insurance industry and conservative interests to push for privatizing it.

BY JULIE KOSTERLITZ

Don't bother telling Rep. Jim Kolbe, R-Ariz., about the voltage in the third rail of politics. In 1982, after the Reagan Administration announced plans to tinker with the social security system, Kolbe narrowly lost his first bid for Congress in a campaign that crackled with warnings from Democrats about the GOP's malign intentions toward the popular program.

Just a few months ago, however, with encouragement from House Speaker Newt Gingrich, R-Ga., Kolbe launched the Public Pension Reform Caucus to explore ways to remake the New Deal's mega-legacy. Kolbe, who believes that social security should be scrapped and replaced with a system of private, personal investment accounts, said that his goal was "to have people talking about it, thinking about it . . . and to prove to Members that you can talk about this without dying."

The early indications are that Kolbe's task might not be as hard as it once seemed. Not only has Kolbe attracted a handful of conservative Democrats to his caucus, but its first event—a dinner lecture on the seemingly arcane topic of Chile's privatized retirement system—drew a crowd of nearly 40 Capitol Hill lawmakers, even though it was held during a series of key floor votes. "This much interest, this fast, has been a surprise," said Mike Tanner, the director of health and welfare studies at the Cato Institute, a libertarian think tank, which co-sponsored the dinner. Freshman and younger lawmakers tend to be the most enthusiastic, he added. "There's a certain generational aspect involved."

The idea that social security is a political "untouchable" is already changing. Malcolm S. (Steve) Forbes Jr., who's running for the Republican presidential nomination, has proposed replacing the social security system for younger workers with a system of individual retirement accounts (IRAs). In the Senate, Alan K. Simpson, R-Wyo., this year held hearings on a bill he co-sponsored with Robert Kerrey, D-Neb., that would funnel a portion of social security taxes into private IRAs. And a government advisory council on the future of social security, while hopelessly divided, is likely to include a partial privatization option in its final report, which is likely to be out early next year. *(See box, p. 3138.)*

Even the so-called liberal media establishment has been taking a decidedly tougher line. In March, *Time* magazine set tongues wagging across the ideological spectrum with a cover story headlined "The Case for Killing Social Security."

All this comes as sweet vindication to longtime critics of the system. Social security may be "off the table" in this year of balanced budget negotiations and preelection posturing. But conservatives in both parties, libertarians and business interests are gearing up for the mother of all entitlement battles: a fundamental overhaul of social security.

This fall has seen a flurry of networking and organizing around the issue, on and off Capitol Hill, which in turn is expected to result in a blizzard of new legislation, hearings and reports, conferences and coalitions next year.

In the center of action is the not-for-profit Cato Institute, which in August (on social security's 60th anniversary) launched a project to push—through studies, speeches, public opinion polling and a working group of like-minded organizations—the idea of privatizing the system. Officials of the Cato Institute say that they expect to raise, and spend, nearly $2 million on the project. It's already received a major grant from the conservative Jaquelin Hume Foundation in San Francisco.

The coming crusade may be driven by conviction, but it is also about hard, cold cash. Wall Street and the insurance industry, which stand to profit handsomely from even the most modest privatization plans, are already poised to use their clout and deep pockets to advance the cause. Industry trade groups such as the Investment Company Institute (which represents mutual funds), the Securities Industries Association and the American Council of Life Insurance are participating in the Cato Institute's working group, and some are beginning their own efforts on the issue.

The crusade could also boost the fortunes of its leaders. The Cato Institute, for example, is asking various companies in the financial services industry to help finance its project. The Starr Foundation, which is associated with American International Group Inc., the New York City-based insurance giant, has already anted up, and Tanner said that others in the industry have promised to do so. "We're raising money from it," he said of the project. Other organizations hope to gin up grass-roots interest in the cause—and, of course, contributions. And, as usual, lobbying firms, pollsters, advertisers and direct-mail firms are starting to position themselves to get a piece of the action.

Why all this commotion now about a program that isn't expected to hit the skids until around 2030? The reason, social security experts of all stripes agree, is that the program will begin flirting with some less dramatic but significant fiscal and political problems in about 15 years, and averting these requires action before the turn of the century.

Those bent on a radical restructuring of social security know they can't start making their case too soon. Notwithstanding all the doubts about the program's future that show up in opinion polls, social security remains enormously popular with Americans of all ages.

"You're just going to have to lay the groundwork for it," Kolbe said. "This is not something you can do overnight." A popular backlash in the 1996 elections against Republicans over their proposed reductions in medicare spending could send the shock troops of the social security revolution diving for cover. By the same token, if such a backlash fails to materialize, the radical reformers are likely to be greatly emboldened.

Not all the obstacles facing privatization of the social security system, however, are political. One of the biggest is financial: The transition to a private system would entail huge costs. Advocates of radical reform concede that they need to use the lead time not merely to sell the public on the need for change, but also to work through the thorny technical and financial issues that their reforms would entail.

Even so, the shift in climate has been significant enough to alarm some of the program's guardian angels. Budget-driven politics and a climate of public mistrust of government "have fueled a drive, that some want for ideological reasons, to privatize social security and has brought mainstream policy people to consider it seriously," said Gerald M. Shea, AFL-CIO president John J. Sweeney's assistant for government affairs and a member of the government's Advisory Council on Social Security. Shea said that he was alarmed by attitudes he found as he made the rounds of major newpapers and magazines. "I met with reporter after reporter," he said, "who was personally angry about social security."

But what troubles others the most is the large shadow cast by Wall Street interests. "I'm more worried about them, because they have more potential to be effective," said Robert Ball, a former social security commissioner and influential advocate for the program who's also a member of the Advisory Council on Social Security.

THE PIE IN A FALLING SKY?

Privatizing social security—broadly understood as doing away with a publicly financed retirement system in favor of private arrangements—isn't a new idea. Economist Milton Friedman made it an issue in the 1950s; it was one of the Cato Institute's first items of business after it opened its doors in 1977; and it's surfaced periodically in Washington circles—in 1986, Gingrich floated a proposal to privatize the system.

Advocates of privatization have historically sounded a libertarian theme: A massive, paternalistic, government-run retirement system takes money, choices and control away from individuals. They've also had an economic corollary: The system distorts and reduces individuals' economic incentives to work and to save.

But an idea once relegated to the fringes of political debate has just recently moved toward the center. One propellant: falling public confidence in government generally and social security's future in particular. Another spur has been the focus on entitlement programs by deficit hawks, starting with 1992 presidential aspirants Paul E. Tsongas and Ross Perot, and continuing with last year's Bipartisan Commission on Entitlement and Tax Reform, which was chaired by Kerrey and then-Sen. John C. Danforth, R-Mo.

Underlying both currents are fears that a tsunami of baby boomer retirements is going to bust the bank—fears that have magnified as that eventuality draws ever closer. Public expectations that the system won't be there when they need it are bleaker than the forecasts of the program's trustees, who say that even with no changes, the program can pay full benefits until 2030—around the time the last of the boomers retire—and 75 per cent of promised benefits for at least 20 years after that.

Still, that kind of shortfall isn't trivial: If no changes are made in the program, bridging it would require boosting the social security payroll tax from 12.4 per cent of eligible annual wages to about 17 per cent. This has sparked growing attention to the economic burdens already piling up on tomorrow's workforce, both in the works of such economists as Laurence J. Kotlikoff of Boston University and a procession of Generation-X advocacy organizations, such as New York City-based Third Millenium.

For some deficit hawks, the concerns are more immediate. They see trouble for the federal budget starting around 2012, not long after the leading edge of the boomers start cleaning out their desks and heading south. That's when payouts to retirees start exceeding social security's payroll tax revenues and the government has to start repaying the IOUs it issued to the program for past surpluses, with interest. Repaying those IOUs means raising general-purpose taxes or increasing the over-all federal budget deficit. Deficit hawks are also alarmed about the growing share of the federal budget that's consumed by automatic spending for entitlement programs—currently at 50

Richard A. Bloom

Rep. Jim Kolbe, R-Ariz., the founder of the the Public Pension Reform Caucus His goal, he says, is "to prove to Members that you can talk about this without dying."

per cent of the budget and, absent any changes, headed higher—that are aimed chiefly at older Americans.

The year 2012 might seem a political eternity, but the longer Congress waits, the fewer and more painful its options: mainly hefty, immediate tax increases or cuts in benefits. And in politics, those are two of the deadliest sins of all.

TOURNIQUET TIME?

Faced with these unpleasant realities, some deficit hawks have been looking to the private securities markets for solutions. Investing some or all of the money that would otherwise be paid in social security taxes in stocks, bonds and allied instruments—which typically offer higher long-term yields than government securities—might provide a new infusion of retirement money, and thus spare politicians the need to apply as tight a tourniquet to stop the system's hemorrhage. Such an infusion of capital, the theory goes, could also boost national economic growth, which in turn would ease the burden of the baby boom retirement bulge.

The idea got a boost last year when the World Bank issued a report that was critical of the kind of social security programs found in aging, industrialized countries and full of praise for the privately managed, mandatory personal savings scheme that Chile adopted after it privatized its social security system in 1981. The report, its authors say, wasn't directed at the United States, whose social security system is in far better shape than its counterparts in other countries and where the Chilean model is likely to be far less helpful than in might be in Third World and East European countries. But the report has nevertheless been used by advocates of privatization to bolster their arguments.

Kerrey and Simpson would take a teeny step in Chile's direction by allowing individuals to divert 2 percentage points of the existing payroll tax into privately managed individual accounts, an idea that's similar to one broached—but not actually endorsed—by the Kerry-Danforth commission. The Progressive Policy Institute, the research arm of the centrist Democratic Leadership Council, also favors partial privatization along with some cuts in benefits.

Even traditionalists are advocating letting the federal government invest some of the program's surpluses—which now go into special Treasury bonds—in much the way that state governments invest employees' pension funds. That could help the government out of its fiscal bind without increasing the risks to beneficiaries. Privatization enthusiasts say that such government investment smacks of socialism and that political considerations would invariably interfere with sound investment decisions.

More important, they say, it wouldn't do away with the pay-as-you-go nature of social security—in which each generation of workers is taxed to pay for the benefits of current retirees—a setup they liken to an illegal pyramid scheme. Letting individuals keep some or all of that money and requiring them to invest it for their own retirements would put an end to government's habit of using social security surpluses to mask deficit spending. It also would boost the public's sagging confidence in the system, they say, by giving individuals ownership and control over the funds. It would even, some argue, boost over-all savings—the key, in their view, to spurring national economic growth.

Privatizing some or all of social security would also tackle what's shaping up as an increasingly difficult public relations problem for the program: Over time, it's become less attractive when compared with alternative investments. The "payoff" from social security is starting to look especially low for the affluent—some of whom, now, for the first time, can actually expect to get less in benefits than they paid in taxes. And it will only get worse if

A COMMISSION'S SUDDEN TURN

Is privatizing social security a pipe dream? In an unexpected, 11th-hour development, 5 members of a 13-member government advisory commission voted in mid-December to endorse a plan to partially privatize the system.

The strong show of support for the politically radical idea was a surprise in part because it came just weeks before the 1994-95 Advisory Council on Social Security—which was expected to complete its work months ago—was slated to issue a final report and close up shop. What's more, its members hadn't even seen a detailed analysis of the partial privatization option until a few days before their Dec. 14 meeting.

Although a slim plurality of members seems likely to line up behind a far more modest reform plan, such a strong showing for partial privatization within the nonpartisan panel—whose members were appointed by Health and Human Services Secretary Donna E. Shalala in June 1994—will undoubtedly influence the coming debate over the future of social security.

Before the straw vote, the council—already hopelessly fragmented—had divided into two major camps: one headed by Robert Ball, the 81-year-old former social security commissioner, the other by chairman Edward Gramlich, a onetime acting director of the Congressional Budget Office who now heads the University of Michigan's Institute of Public Policy Studies.

Ball, whose long professional involvement with the program over the decades has made him its patron saint, has proposed a grab bag of minor adjustments that would allow the program to once again pass the actuaries' technical test of long-term fiscal health while avoiding major tax hikes and cuts in benefits. Ball's main concern is warding off major changes in the program's historic structure.

Gramlich has argued for stiff reductions in expected benefits for future retirees. He aims to avoid any increase in payroll tax rates—which he considers politically unsalable and unfair to future generations.

Although six members of the council sided with Ball, dissenters say that his seeming no-pain solutions are only temporary fixes and are likely to require a tax increase sometime—perhaps decades from now. "For some of us, saying 'We'll make a nip here and a tuck there and then 30-40 years in the future assume Congress legislates a tax increase' is not satisfactory," said Sylvester Schieber, the director of the Research and Information Center at the Wyatt Co., a Washington-based benefits consulting firm.

It was Schieber and Carolyn L. Weaver of the American Enterprise Institute for Public Policy Research, a onetime aide and current adviser to Senate Majority Leader Robert Dole, R-Kan., who pushed the idea of steering 5 percentage points of the social security payroll tax into private retirement accounts.

The Dec. 14 meeting left the council's final report—originally due by year's end, but now expected in mid-January—up in the air. As members of the council scattered for the holidays, Gramlich was proposing to redraft his proposal, in a last-minute bid for support, and Ball's allies were grumbling at the hasty consideration of such a major change in social security, which, they fear, could lead to the unraveling of the current system. "Depending on how it's presented, I may not put my name on it," Gerald M. Shea of the AFL-CIO, a member of the council, said of the panel's final report. "It could turn out to be a destructive document."

benefits are cut or taxes raised to address the impending shortfall. "Even if you could fix social security somehow . . . that really wouldn't address the most significant problem," Tanner told an audience in August. "And that is that social security, quite simply, is a bad investment."

Tanner, Kolbe and others cite numbers worked up by Bill Shipman, the co-chairman of the Cato Institute's privatization project and a principal with State Street Global Advisors, a Boston-based financial management firm. In his analysis, high-income earners born in 1970 who invested in stocks the amount that they would otherwise pay in social security taxes could receive nearly six times the benefits they're slated to get from social security; a low-wage earner who did likewise could get nearly three times the expected benefits from social security. (Departing from traditional libertarian orthodoxy, total privatization advocates such as Tanner accept the idea that government should mandate—and, at least initially, regulate—a system of private, retirement investment plans.)

HOW DIRE THE STRAITS?

The idea that social security is in dire straits angers its defenders, who maintain that the system's problems are overstated. The projected increase in the cost of the program from 2005-35—2 percentage points of gross domestic product—is comparable to the increase from 1962-80, Henry J. Aaron, the director of the Brookings Institution's economic studies program, said in a recent speech. It's a significant increase, he said, but not beyond the nation's means. "Are we going to face budgetary stress?" he asked. "Yes we are. Will those stresses require that we dismantle or privatize social security? No." Aaron argues that both reducing benefits and increasing taxes should be part of the solution.

Privatization, experts say, would invariably create new winners and losers. "Some of the gains and losses involved for individuals are so complicated we don't understand them," Edward Gramlich, the chairman of the Advisory Council on Social Security and the director of the University of Michigan's Institute of Public Policy Studies, said. "Everyone ought to go into this with a great deal of reverence for the dislocations that could come about. There could be huge and unanticipated changes."

Social security's defenders maintain that the privatization enthusiasts also understate the risks of their approach. Not everyone, of course, can achieve above-average investment returns; losses or poor returns could devastate an individual's retirement security. Low-wage workers, who currently get a leg up in retirement from social security's progressive benefit formula, the program's defenders say, tend to be inexperienced in the ways of Wall Street and are likely to be the big losers in a privatized system.

There's more: Wall Street's happy history doesn't guarantee a happy future and, in any event, tends to obscure the fact of inevitable downturns in the market; just because there's a long-term rise in global temperatures doesn't mean it won't snow the day you retire. It was just such dangers that social security—which was crafted in the aftermath of the Great Depression—was meant to avoid. "This is clearly shifting the risk to the individual," David Certner, the senior coordinator in the federal affairs department of the American Association of Retired Persons (AARP), said. Why expose individuals to greater risks, he asks, at a very time that employer pension plans are moving in that direction? Nearly two-thirds of all older Americans rely on social security for at least half of their incomes.

Rate-of-return comparisons can also be misleading because they don't factor in the value of an array of benefits and protections built into the social security system that the private sector provides only at great cost, or not at all: disability insurance, survivors' benefits, guaranteed and inflation-adjusted benefits.

Nor do rate-of-return comparisons take into account what may be privatization's Achilles' heel: the transition costs. "Any proposal that scraps social security is saying, in effect, to today's 45-year-olds [and those younger], you have to pay for two generations," Gary Burtless, an economist at the Brookings Institution, said. "You have to pay for those already 45 or older to finance their promised entitlements, and [you have to] save enough and get a rate of return spectacular enough to pay for your own retirement."

These transition costs represent serious money. Under a scenario being studied by the Advisory Council on Social Security, in which workers under 55 would divert 5 percentage points of the 12.4 per cent combined employer-employee payroll tax to private investment accounts with a commensurate reduction in social security benefits, payroll taxes would have to be increased by 1.5 percentage points for the next 70 years just to cover all of social security's old obligations. Higher taxes would, of course, reduce over-all rates of returns. And if the government instead chose to finance the transition cost through higher borrowing, it would essentially offset the economic benefits from increased private investing.

It was these hefty transition costs that made Kerrey and Simpson decide to propose "privatizing" only 16 per cent of social security's payroll tax revenues. To pay for the scaled-down transition costs, Kerrey and Simpson would cap cost-of-living increases.

But such a modest shift wouldn't buy much relief from social security's fiscal crunch, either. To deal with that, Kerrey and Simpson would also raise the future age of eligibility for full benefits from 67 to 70. Nor would it confer most of the benefits that privatization enthusiasts dream about. "It's a possible way of getting a foot in the door," Kolbe said of the Kerrey-Simpson proposal. "I don't think it's the solution."

Kolbe and others seem unfazed by the transition costs. "It's not a tough nut to crack from a technical or economic standpoint," Kolbe argued. Tanner suggests, among other ideas, asking young people to simply write off their past contributions, making further cuts in federal spending and selling off federal assets—ideas consistent with Cato's libertarian agenda, but not an easy political sell.

That's why he and like-minded interests are gearing up now. The Cato Institute has launched what Tanner calls its "largest project"—it's budgeted at \$600,000 a year for the next three years—to "make the intellectual case" for privatization. The Cato Insitute also recently sponsored a cross-country speaking tour for José Piñera, the charismatic former

John Eisele

Gerald M. Shea of the AFL-CIO
He's alarmed by the drive to privatize.

Chilean labor minister who launched the privatization effort, who's a co-chairman of its privatization project.

The Cato Institute's "working group" on privatization drew about 30 representatives from conservative and industry groups at its first meeting in September. Among those sending representatives were several Capitol Hill lawmakers and the American Bankers Association, the American Council on Life Insurance, American Express Co., American International Group Inc., Enron Corp., International Business Machines Corp., the Investment Company Institute, Kemper Corp., the Progress & Freedom Foundation, Travelers Inc. and 60-Plus, a conservative advocacy group.

An array of other conservative think tanks and interest groups, including the Heritage Foundation and Citizens for a Sound Economy, are promoting privatization.

The interest in privatization is hardly surprising: diverting even 2 percentage points of the social security payroll tax into such private investments as stocks, bonds and insurance products would mean an influx of $60 billion a year, to start, into the market. "The whole financial industry could stand to make some very big money on it," Ball said. "You're talking about more than 100 million workers having substantial sums to invest."

Business interests are gearing up to push the issue as well. Representatives of the Investment Company Institute testified at Simpson's hearings this year in support of a partial, voluntary privatization proposal, and the institute recently hired an actuary to flesh out its proposal. The Washington office of Malibu (Calif.)-based Goddard*Claussen/First Tuesday, an advertising and issue-advocacy consulting firm, is discussing a campaign to push for an overhaul of social security for a company in the financial services industry, said vice president Robert Tappan, who wouldn't identify the client.

Interest in changing the social security system is also high in the broader business community: the Business Roundtable, the National Association of Manufacturers and the U.S. Chamber of Commerce have all recently launched task forces on social security reform. Among other things, they want to head off any talk of a payroll tax hike and monitor the implications for employer-sponsored pension plans.

GRASS ROOTS AND GREENBACKS

Meanwhile, the lobbying firm of McClure, Gerard & Neuenschwander—the name partners are ex-Sen. James A. McClure, R-Idaho, and his two top Senate aides—is laying plans for the Retirement Security Coalition, which will be spearheaded by vice president Anne C. Canfield, a former Capitol Hill aide and adviser to the Cato Institute's project. The firm, which is readying an Internet home page and making plans for a direct-mail fund-raising campaign, wouldn't disclose how much it plans to raise—and spend—on the coalition.

On Capitol Hill, advocates of a major overhaul of the system are shooting mainly for small, symbolic gains: Simpson and Kerrey hope to have the Finance Committee hold hearings on their legislation, and, eventually, more co-sponsors (only Charles S. Robb, D-Va., has signed on thus far). In the House, where John Edward Porter, R-Ill., has put partial-privatization bills in the hopper since 1990, Republicans Michael N. Castle of Delaware and Mark Sanford of South Carolina and are also working on proposals.

In the same vein, Rep. Jennifer B. Dunn, a first-term Republican from Washington, recently attached a little-noticed amendment to a House-approved measure to repeal the "earnings penalty" for social security beneficiaries who work. Dunn's amendment would require the Social Security Administration to start a pilot program that would automatically provide recipients with the data needed to compare the benefits they receive with the taxes they've paid in. The idea, an aide to Dunn said, is to make older Americans aware of the program's looming fiscal problems and of the excess of benefits they're now receiving over taxes paid; but it could also serve to ratchet up discontent among high-income voters.

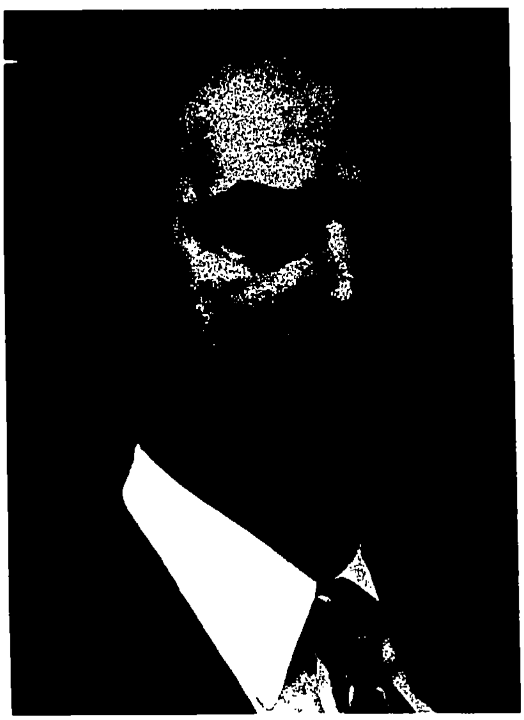
Although the conservatives who want to overhaul social security have made some efforts at bipartisanship, some are already playing hardball. Despite pleas from the White House and key Democrats, Senate Republican leaders have refused to act on the nomination of social security commissioner Shirley Chater to a six-year term at the helm of the newly independent Social Security Administration, or that of any of President Clinton's three nominees to its advisory board.

The defenders of social security, especially in the seniors' lobby and within organized labor, have been taking note. More than a year ago, leaders of the AFL-CIO, the AARP and the National Council of Senior Citizens, a labor-affiliated lobby, grew alarmed about the tone of discussions about social security emanating from the Kerrey-Danforth commission. "They were starting from the point of view that these programs were unsupportable, and a big mistake—if not a hoax—on the American people," the AFL-CIO's Shea said. "We thought that was extreme and unbalanced."

They decided that the threat couldn't be ignored. The AFL-CIO commissioned a poll on public attitudes about social security; the federation also put out a four-page insert on social security in several union publications, set up a press conference featuring labor leaders from Chile and Argentina who gave mixed reviews of their privatized systems and, along with representatives of AARP, met with journalists at several major news organizations.

The poll results, Shea said, were encouraging, showing continuing high levels of support for the program. But the meetings with the journalists were not. One of the authors of *Time*'s article, Suneel Ratan, Shea said, complained about the negative rate of return that he and his wife would receive from social security. "He said he would make more if he could invest the money privately and do the economy lots more good," Shea said. "It really floored us to understand that there was a group of younger, well-educated Americans who really were angry."

For believers in the system, the confluence of free-marketers, budget hawks and disgruntled elites is worrisome enough. Toss in Wall Street's bottomless pockets and you've got the makings of a real movement. "This may be a case," Ball said, "of self-interest and ideological bent coming together." ■



Richard A. Bloom

Mike Tanner of the Cato Institute
"We're raising money from it."

THE FEDERAL PAGE

CLINTON'S PLEDGES

That a candidate would promise as much as President-elect Clinton did last year might be surprising after one broken campaign pledge — "Read my lips, no new taxes" — caused his predecessor so many problems.

But as Democratic rival Paul E. Tsongas showed with his 85-page policy manifesto during the early primaries, voters wanted detailed answers to their questions. "Specificity is the character issue of 1992," George Stephanopoulos, Clinton's communications director, said before last year's New Hampshire primary.

The year's character question for Clinton may be keeping his word. Even before the inauguration, his administration-in-waiting took hits for waffling on pledges to oppose gasoline taxes, reduce the federal budget deficit, protect Haitian refugees, cut White House staff and cut taxes for the middle class.

What follows are some of the major proposals candidate Clinton advanced during last year's campaign.

—Mark Stencel

ABORTION

- Pass the Freedom of Choice Act that protects abortion rights but allows some state restrictions, such as parental notification.
- Overturn laws prohibiting federal abortion funding.
- Repeal Bush administration rules restricting abortion counseling in clinics that receive federal funds.
- Protect women seeking abortions and health care workers from antiabortion protesters.
- Reauthorize federal family planning programs.
- Allow testing of RU-486 abortion pill.

AGRICULTURE

- Open new markets for U.S. products, particularly in Eastern Europe and the former Soviet republics.
- Expand international food aid programs.

AIDS

- Increase funding for research, treatment and prevention.
- Appoint a policy coordinator to enact recommendations of the National Commission on AIDS.
- Speed up federal drug approval process.
- Fully fund the Ryan White CARE Act.
- Launch frank education and prevention program and support local efforts to distribute condoms in schools.
- End AIDS-related immigration and travel restrictions.

ARMS CONTROL

- Ratify START I and START II treaties.
- Use sanctions to seek stronger export controls from countries with technologies for nuclear and other arms.
- Prevent foreign governments from using agricultural and other non-military aid on weapons.
- Enable the International Atomic Energy Agency to conduct more inspections to stop nuclear proliferation.
- Press countries to join the Missile Technology Control Regime.
- Seek Comprehensive Test Ban Treaty and an international agreement banning chemical weapons.

THE ARTS

- Oppose restrictions on grants from the National Endowment for the Arts based on content.

THE BUDGET

- Halve the annual federal budget deficit in four years, from the $323 billion gap first projected by the Congressional Budget Office for 1993 to $141 billion in 1996.*
- Seek a line-item veto to cut wasteful spending.

CITIES

- Offer tax and regulatory incentives to businesses that create jobs in urban enterprise zones.
- Provide funding and block grants to improve infrastructure.
- Create a network of 100 community development banks to aid low-income entrepreneurs and homeowners.
- Revise local reinvestment requirements for commercial banks.
- Allow cities to spend 15 percent of their federal aid on local priorities.

CIVIL RIGHTS

- Oppose racial quotas.
- Support and seek passage of an Equal Rights Amendment and federal civil rights laws for homosexuals that exempts religious organizations.
- Raise caps on damages in workplace discrimination cases.

CRIME AND DRUGS

- Put 100,000 new police officers to work and expand community policing.
- Create a National Police Corps to put military personnel and unemployed veterans to work in law enforcement.
- Have first-time, nonviolent offenders serve out their sentences in community boot camps.
- Enact tough penalties for assaults against women and children to deter domestic violence.
- Increase federal funding for school-based and community drug education programs and treatment clinics.
- Provide federal matching funds for crime prevention in hard-hit communities.
- Impose a five-day waiting period on handgun purchases, ban assault weapons with no legitimate hunting purpose, and limit access to multiple-round clips.
- Seek jail terms for serious white-collar criminals in "real prisons, not high-tech summer camps."
- Crack down on hate crimes.

DEFENSE

- Save $100 billion in defense spending over 5 years, or $60 billion more than the Bush administration proposed.
- Cut military personnel by offering voluntary early retirement and pro-rated pensions for those who have served 15 to 20 years.
- Pay retiring personnel for a year of retraining.

- Build fleet of C-17 cargo planes to expand sea- and air-lift capabilities and enhance rapid-deployment forces.
- Reduce U.S. forces in Europe to 75,000-100,000 troops but maintain commitment to NATO.
- Maintain U.S. military presence in Korea.
- Maintain 10 carrier battle groups instead of 12.

- Develop short- and medium-range missile defenses and continue research on limited long-range missile defenses.
- Cut spending on large, space-based missile defenses.
- Reverse ban on homosexuals in the military.

THE ECONOMY AND JOBS

- Create a National Economic Council.
- End tax incentives that encourage companies to export plants and jobs.
- Provide investment tax credits to companies that invest in U.S.-based plants and American-made equipment.
- Make foreign companies with businesses in the United States pay the same taxes as U.S. companies.
- Offer a 50 percent tax exclusion to those who make long-term investments in new businesses.
- Create a $20 billion-a-year fund for spending on transportation and roads, communications and information networks, and environmental technology.
- Make business tax credits for research and development permanent.
- Develop new commercial technologies through a new civilian research and development agency.
- Raise the minimum wage to keep pace with inflation.
- Limit deductions for executive pay.
- Allow businesses to deduct bonus and severance packages for executives only if other employees are offered similar packages.

EDUCATION

- Create a national service program that allows college students to repay federal loans with community work.
- Fully fund Head Start and other programs recommended by the National Commission on Children.
- Enact national standards for public schools to be measured with examinations on core subjects.
- Help students not going to college develop job skills through a national apprenticeship program.
- Require employers to spend 1.5 percent of payroll costs on education and training for all workers.
- Encourage competition in education by giving parents public school choice.
- Increase Chapter One funding to "level the playing field" for disadvantaged students.
- Give school systems flexibility to use federal funds to reduce class sizes or as they see fit.
- Develop programs that help disadvantaged parents work with their children on school assignments.
- Provide funds for security and metal detectors at schools that need them.
- Require large federal contractors to sponsor jobs and after-school employment for disadvantaged youths.
- Promote bilingual education programs in which students learn core subjects in their native languages while also studying English.

ELECTIONS AND GOVERNMENT

- Support District of Columbia statehood.
- Voluntarily cap spending in congressional races and reduce contributions from Political Action Committees from $5,000 to the $1,000 limit on individuals.
- End unlimited "soft money" contributions to parties.
- Restrict prices on TV ad time for candidates.
- Sign the "Motor Voter Act."
- Require lobbyists to disclose contributions to members of a congressional committee before they can testify.
- End tax breaks for lobbying expenses.
- Make top appointees pledge not to lobby agencies within their jurisdiction for five years after leaving office.
- Reduce the White House staff by 25 percent and cut 100,000 federal jobs through attrition.
- Cut 3 percent in agency administrative costs.
- Appoint more women and minorities to government jobs.

ENERGY AND THE ENVIRONMENT

- Oppose increasing federal excise gas taxes or increased reliance on nuclear power.
- Raise Corporate Average Fuel Economy standards for auto makers from 27.5 miles per gallon to between 40 and 45.
- Convert federal vehicle fleet to natural gas.
- Encourage renewable and alternative energy projects with tax incentives.
- Use highway spending to encourage car pooling and mass transit.
- Change regulations, and building standards, to make energy efficiency profitable for utilities and consumers.
- Curb industrial and toxic emissions and expand markets for recycled products with tax incentives.
- Enforce environmental laws with jail terms for corporate polluters when necessary.
- Push utilities to consider social and economic costs of fuel sources with incentives to adopt least-cost planning.
- Protect expanded Arctic National Wildlife Refuge in Alaska from drilling.
- Require companies to recover some of the waste they generate or buy "credits" from companies that do.
- Pass Clean Water Act that includes incentives to reduce "non-point-source" pollution from household chemicals, pesticides and other substances.
- Allow citizens to sue federal agencies for ignoring environmental laws and regulations.
- Stick to "no net loss" wetlands policy.
- Limit carbon dioxide emissions to 1990 levels by 2000.
- Push major banks to reduce debt burdens on developing nations in exchange for land conservation efforts.
- Allow U.S. funds to support international family planning and population control efforts.

FAMILIES

- Pass a Family and Medical Leave Act giving workers 12 weeks of unpaid time off a year to care for newborn children or sick relatives.
- Crack down on parents who avoid child support.
- Create a child care network like the network of public schools and enforce new standards on child care facilities.

HEALTH CARE

- Provide coverage to all Americans with cost controls and by requiring employers to buy private insurance or pay into a public system.
- Allow people to choose services from competing local networks of insurers, hospitals, clinics and doctors, who will be paid a fixed rate.
- Provide a core benefits package that includes ambulatory physician and inpatient hospital care, prescription drugs, basic mental health coverage, and expanded access to preventative treatments and routine screenings.
- Create a board of consumers, providers and representatives from government, business and labor to establish a core package of benefits and annual health budget targets.
- Require insurers to cover individuals with any pre-existing conditions, charge all businesses in a community the same rate, and streamline billing practices to cut administrative costs.
- Phase in requirements for small employers until costs are reduced.
- Allow small employers to pool to receive more favorable rates from insurers.
- Eliminate tax breaks for prescription drug manufacturers whose prices increase faster than incomes.
- Expand Medicare benefits for the elderly and disabled to include more options for long-term care.

HOUSING

- Hold a Housing and Homelessness Summit with urban leaders to develop poverty and housing programs.
- Transfer 10 percent of all federal housing to churches and other non-profit community groups for the homeless.
- Use housing at closed military bases for the homeless.
- Provide federal support to programs that restore old housing to sell to low-income home buyers.
- Attract investment with a permanent Low Income Housing Tax Credit.
- Provide increased federal funding for maintenance of existing public housing.
- Raise the ceiling on Federal Housing Authority mortgage insurance to 95 percent of the price of a home in average metropolitan areas.
- Expand local authority to make more low-income rental units available through the HOME Program.

IMMIGRATION

- Give temporary asylum to political refugees from Haiti until that country's elected government is restored.
- Cut the two-year waiting period for people seeking visas to the United States who are separated from immediate family members and reduce the backlog of extended family members in similar situations.
- Close "sweat shops" and "abusive farm labor contractors" that rely on illegal immigration.
- Use trade agreements with Latin American neighbors to raise wages in that region, discourage immigration and protect U.S. jobs.

INTERNATIONAL RELATIONS

- Link most-favored-nation trading status for China with progress on human rights and nuclear proliferation.
- Seek U.N. authorization for air strikes against forces that disrupt relief efforts in Bosnia while using U.S. and European naval forces to tighten economic sanctions against Serbia and Montenegro.
- End reported atrocities in Serbian detention camps with international military force if necessary, and punish those responsible for atrocities in Bosnia under international law.
- Get full accounting of POWs and MIAs before normalizing relations with Vietnam.
- Increase political and economic pressure on Haiti's current leadership to restore that country's democratically elected government.
- Encourage more private investment in the former Soviet Union.
- Guarantee loans for Israel to help settle Soviet Jews.
- Recognize Jerusalem as the capital of Israel and oppose the creation of an independent Palestinian state.
- Modify foreign aid programs to promote democracy.
- Establish Radio Free Asia.

POVERTY AND WELFARE

- Require welfare recipients who can work to find jobs or repay services with work in the community after two years of expanded assistance and training.
- Create optional Individual Development Accounts for low-income Americans to encourage savings with federal matching funds.

SOCIAL SECURITY

- Raise earning limitations so recipients can collect more income along with their benefits.
- Consider higher taxes on benefits for wealthier recipients.
- Ensure system's solvency.

SPACE

- Launch more ventures with Europe, Japan and Russia.
- Maintain NASA's fleet of space shuttles and continue building Space Station Freedom.
- Develop new, less costly launch systems.
- Increase environmental research through NASA's "Mission to Planet Earth."
- Continue to use unmanned probes and robots to explore other planets.
- Back away from Bush plans for exploration of the moon and Mars by U.S. astronauts, but continue scientific studies for internationally financed missions.

TAXES (Personal)

- Raise tax rates on joint-filers whose adjusted gross incomes are more than $200,000 or individuals whose AGIs are more than $150,000.
- Increase the Alternative Minimum Tax rate from 24 to 26 or 27 percent.
- Require millionaires to pay a 10 percent surtax.
- Offer middle-class families $60 billion in tax cuts over four years in the form of a $300 tax cut per couple or a $300 per child tax credit.
- Increase the Earned Income Tax Credit for the working poor.

TRADE

- Continue international talks to renew the General Agreement on Tariffs and Trade while strengthening U.S. "Super 301" laws to punish nations with unfair trading practices unilaterally.
- Support the North American Free Trade Agreement so long as other accords can be reached on the environment and labor standards.
- Ban U.S. trade negotiators and all senior administration officials from working as lobbyists for foreign governments or businesses.

VETERANS

- Oppose opening VA hospitals to non-veterans.
- Decrease waiting periods for outpatient care.
- Notify disabled veterans of benefit changes in advance.

*—new Bush administration budget projections put the 1996 deficit at $286 billion, or $71 billion more than the congressional projection on which Clinton based his figures during the campaign.

SOURCES: Clinton's "Putting People First: A National Economic Strategy for America"; campaign position papers and press releases.

Compiled by Mark Stencel—The Washington Post

CLINTON CAMPAIGN PROMISES
From *The Washington Post*

January 1995

PROMISE	STATUS	LATEST POLICY/RESULT
ABORTION: Pass the Freedom of Choice Act that protects abortion rights but allows some state restrictions, such as parental notification.	PROPOSED	Freedom of Choice Act did not pass in Congress.
ABORTION: Overturn laws prohibiting federal abortion funding.	PARTIAL ACCOMPLISHMENT	Federal law requires Medicaid to pay for abortions for poor women in cases of rape or incest. Congress added rape and incest authorization to life of the woman abortion funding.
ABORTION: Repeal Bush administration rules restricting abortion counseling in clinics that receive federal funds.	SUBSTANTIAL ACCOMPLISHMENT	Repealed by Presidential Memorandum January 22, 1993.
ABORTION: Protect women seeking abortions and health care workers from antiabortion protesters.	SUBSTANTIAL ACCOMPLISHMENT	Signed and enforcing Clinic Access Law.
ABORTION: Reauthorize federal family planning programs.	PROPOSED	Reauthorization is up for consideration in 1995.
ABORTION: Allow testing of RU-486 abortion pill.	SUBSTANTIAL ACCOMPLISHMENT	Clinical testing of RU-486 is now in progress in the U.S.
AGRICULTURE: Open new markets for U.S. products, particularly in Eastern Europe and the former Soviet republics.	SUBSTANTIAL ACCOMPLISHMENT	• Enacted Freedom Support Act which authorized expanded Food for Peace program in the Former Soviet Union. • Opened up Japanese and Korean rice markets. Opened apple markets in Japan and China to US producers. • Passed and signed NAFTA . • Passed and signed GATT.
AGRICULTURE: Expand international food aid programs.	SUBSTANTIAL ACCOMPLISHMENT	• Announced $800 million Food for Progress program expanding U.S. agricultural exports to Russia. • Food aid extended to countries including Angola, Ethiopia, Congo, Croatia, Macedonia and Mozambique. Increased program size in most cases.
AIDS: Increase funding for research, treatment and prevention.	SUBSTANTIAL ACCOMPLISHMENT	• Increased Ryan White CARE Act funding for outpatient AIDS care by $231 million to $579 million for FY94 • Proposed a 20% increase in NIH spending for AIDS research. Received $633 million for FY95, an 83% percent increase.
AIDS: Appoint a policy coordinator to enact recommendations of the National Commission on AIDS.	SUBSTANTIAL ACCOMPLISHMENT	• Appointed first ever AIDS czar to focus on consolidating federal resources and funds to find a cure and address issues surrounding AIDS.
AIDS: Speed up federal drug approval process.	PARTIAL ACCOMPLISHMENT	• Set up the National Task Force on AIDS Drug Development to Create a public-private sector partnership to speed AIDS drugs to market. • The FDA has approved or provided new labeling indications for six products for HIV and related condition.

PROMISE	STATUS	LATEST POLICY/RESULT
TERNATIONAL RELATIONS: iarantee loans for Israel to help :tle Soviet Jews.	SUBSTANTIAL ACCOMPLISHMENT	Loan guarantees remain in place.
:TERNATIONAL RELATIONS: . .gnize Jerusalem as the capital of rael and oppose the creation of an dependent Palestinian state.	PENDING	In September 1993, Israel and PLO agreed in Declaration of Principles that status of Jerusalem should be dealt with in final status negotiations to begin no later than May 4, 1996. The President pledged during the campaign that he would do nothing to disrupt peace negotiations. Since taking office, he has strongly supported the peace process, the Israel/PLO agreement and the peace treaty between Israel and Jordan. Action is pending the outcome of the final status negotiations.
NTERNATIONAL RELATIONS: lodify foreign aid programs to romote democracy.	SUBSTANTIAL ACCOMPLISHMENT	Undertook extensive review and restructuring of foreign aid programs and policies, which now include democracy promotion as a major foreign aid priority that includes information and exchange programs as well as major programs in South Africa, the Newly Independent States of the former Soviet Union, Central and Eastern Europe and countries in transition. Increased funding for the National Endowment for Democracy.
NTERNATIONAL RELATIONS: :stablish Radio Free Asia.	PARTIAL ACCOMPLISHMENT	Funds appropriated.
'OVERTY AND WELFARE: Require welfare recipients who can work to find jobs or repay services with work in the community after two years of expanded assistance and training.	PROPOSED	To reform welfare, President Clinton introduced the Work and Responsibility Act in June 1994 that includes several critical components. The act: • limits welfare for those able to work; • expands funding for training programs and child care to help people get off welfare as quickly as possible in order to work; and • contains the toughest child support enforcement measures ever proposed.
POVERTY AND WELFARE: Create optional Individual Development Accounts for low-income Americans to encourage savings with federal matching funds.	PROPOSED	Included in Work and Responsibility Act proposed in Congress.
SOCIAL SECURITY: Raise earning limitations so recipients can collect more income along with their benefits.	PENDING	Continue to support a reasonable increase in Social Security earning disregard. Testified on behalf of increase in the 104th Congress.
SOCIAL SECURITY: Consider higher taxes on benefits for wealthier recipients.	SUBSTANTIAL ACCOMPLISHMENT	Included in budget FY94.
SOCIAL SECURITY: Ensure system's solvency.	PENDING	Social Security Advisory Council is examining questions surrounding system's solvency and will report in 1995.
SPACE: Launch more ventures with Europe, Japan and Russia.	SUBSTANTIAL ACCOMPLISHMENT	Congress approved funding for the international space station.
SPACE: Maintain NASA's fleet of space shuttles.	SUBSTANTIAL ACCOMPLISHMENT	Reduced operational costs of shuttle fleet while continuing safe flight program.
SPACE: Develop new, less costly launch systems.	SUBSTANTIAL ACCOMPLISHMENT	Presidential Directive (NSTC - PDD4) signed establishing new launch policy to develop systems to lower costs.
SPACE: Increase environmental research through NASA's "Mission to Planet Earth."	SUBSTANTIAL ACCOMPLISHMENT	Restructured the Landsat program through Presidential Directive (NSTC - PDD2).
SPACE: Continue to use unmanned probes and robots to explore other planets.	SUBSTANTIAL ACCOMPLISHMENT	Supported reforms at NASA for faster, better, cheaper space science missions.

News
SOCIAL
Shirley S. Chat
THURSDAY, F

THE WALL STREET JOURNAL
THURSDAY, FEBRUARY 8, 1996 C19

Social Security Proposals To Seek Private Investing

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON – An advisory panel on Social Security is preparing a variety of proposals that, if accepted, would result in some portion of the retirement program's funds being invested in privately run stock and bond funds, according to a member of the panel.

None of the proposals has won the backing of a majority of the 13-member board, nor is it clear how the recommendations will be received by Congress or the Clinton administration. But the suggestions could be a boon for private financial institutions if they're carried out.

The proposal that appears to have the most backing calls for investing 37% of Social Security funds over the next several years in privately managed, indexed stock and bond funds. Currently, excess Social Security funds that are not paid out in benefits are invested in low-yielding U.S. government securities.

The result, said Robert Ball, a former Social Security Commissioner who is a member of the panel and is pushing the idea, is that the real return on the funds would rise from 2.3% to 3.8% a year.

P- so far, only this AP story

Social Security Proposal Eyed

LOS ANGELES (AP) Workers would be permitted to set aside part of their Social Security payroll taxes in individual accounts for investment in stocks and bonds under a controversial proposal to be unveiled next month, the Los Angeles Times reported Friday.

The federally appointed Social Security Advisory Council will recommend that 5 percent of payroll taxes go into a personal security account, or PSA, for each worker, the Times said.

The accounts would be mandatory but the workers could choose how the funds in them would be invested, much as they now have options under money put into companies' 401(k) retirement accounts.

The other 7.4 percent of payroll tax revenues would remain in the current system as a basic source of Social Security funding. The current Social Security payroll tax is 12.4 percent.

LA Times story 2/16

If Congress adopts the plan, it would be the biggest change in the Social Security system since it was created in 1935.

Currently, the payroll taxes paid by 125 million workers are invested in special-issue U.S. Treasury securities that have historically yielded far less in interest than corporate shares.

The semi-privatization plan has its critics because it would put more of the risk on individuals, who would have to choose their stock packages.

Other drawbacks are that low-wage workers would get reduced benefits from the government-invested portion of Social Security because higher-income workers would contribute less to the pot.

Also, a payroll tax hike or increased federal deficit would be needed to keep up with current benefits while about half the incoming money is diverted to individual accounts. The Times said it would cost $1.2 trillion over about 40 years to switch to the new system.

However, the plan's author, advisory council member Sylvester Schieber, said ``everybody ends up getting higher benefits'' under the proposal.

The Cato Institute, a conservative group that strongly supports the privatization plan, said a high-wage worker born in 1970 would get $1,908 in monthly retirement benefits under the current Social Security system but that could reach $11,729 a month if all the money were invested in stocks.

The advisory group, appointed by the secretary of Health and Human Services, has been meeting since 1994 to discuss ways to salvage the Social Security system, which now pays benefits to 43 million retirees and people on disability but is expected to come up short of its obligations in 2029.

The advisory council report was originally due at the end of 1995 but sharp clashes among members delayed it. The Times, citing unidentified sources, said only six of 13 members support the idea of private accounts while the others are divided on two alternate plans. One would keep the current collection system but put 40 percent of revenues into stocks and bonds. The other would keep the current system but add a new 1.6-percent tax, with that money going into individual accounts.

If no plan gains a majority on the council, all three will be submitted.

:SUBJECT: FM

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12/95

Advisers Split on Social Security Reform (Washn)

By Spencer Rich

WASHINGTON After a year of wrangling, the Social Security Advisory Council, which meets every four years to consider and recommend changes in Social Security, is split on how to avert insolvency of the $350 billion-a-year system.

One of three proposals now under consideration would radically ``privatize'' the system. It would eventually give all workers a rebate of almost half their annual Social Security payroll taxes and require them to invest it in personal retirement plans, such as Individual Retirement Accounts (IRAs) or 401(k) savings plans. Historically, stocks and mutual funds have returned a relatively high yield, and therefore these accounts could be expected to produce higher pensions than the current system provides, supporters say.

The two other programs are less radical but have stirred division within the 13-member council, which ordinarily presents the president and Congress with a single recommendation.

In fact, disagreement is so deep that chairman Edward Gramlich, a former director of the Congressional Budget Office, hinted that the council might send the White House and Congress several different options.

Although Social Security was ``fixed'' 12 years ago and was expected to stay solvent until 2062, new data and slower growth in wages now indicate solvency will end in 2030.

At a meeting last Thursday, the council took a ``tentative'' straw vote on the three proposals:

One plan had six backers. Drafted by former long-term Social Security commissioner Robert M. Ball and supported by the three labor union officials on the council, it does not call for privatization. Instead, it would basically retain the system under which the maximum benefit for new 65-year-old retirees is $1,199 a month this year, and averages $858. Money from the non-Medicare part of the payroll tax, paid by the worker and the employer, would all still go to the Social Security trust fund.

Ball relies mainly on tax and cost-of-living adjustments to make up the future Social Security deficit: corrections in the Consumer Price Index that would produce more accurate cost-of-living adjustments; higher income taxes on Social Security benefits; imposition of Social Security payroll taxes on 3.5 million uncovered state and local employees. In addition, 37.5 percent of balances in the trust fund would be invested by the government (not individuals) in stock market ``index funds'' (which rise and fall automatically with the market as a whole), yielding higher returns than the trust fund now earns from government bonds. Finally, as a ``fail-safe,'' a payroll tax increase of 1 percentage point each on employers and employees in 2050 would be written into law.

The ``privatization'' plan received five votes. It would create a two-tier benefit system.

Council member Sylvester J. Schieber said that now, about 10 percentage points of the total Social Security payroll tax of 13.3 percent half paid by employers, half by employees goes for retirement benefits. (The rest pays for disability, Medicare and benefits for children who have lost a parent.) Under his plan, only 5 percentage points of the 10 would go into Social Security for retirement pensions, and the benefit paid by the government would be cut sharply to the equivalent of about $375 a month in 1995 dollars and would be the same amount for all who worked a full lifetime. That would be the first tier.

The remaining 5 percentage points of the 10 would be given to the worker to invest in his or her own 401(k) and IRA and thus create a second tier of benefits.

All this would be phased in gradually starting with the youngest workers. To help pay for the transition, a 1 percent national sales tax would be needed for the next 75 years, plus loans from the government.

The third plan received two votes, including one from Gramlich. A sort of halfway house between the current system and the Schieber plan, this plan would provide for only 2 percentage points of the tax to go into a workers' 401(k) or IRA.

Schieber criticized Ball's plan as based on some ``highly questionable assumptions'': that the Consumer Price Index changes will occur, that added taxes on benefits will be enacted, and that Congress would allow the government to invest in huge blocks of stocks, with the possibility that politics could influence investment decisions.

Ball said, ``I am astounded that under Schieber's plan, serious consideration is being given to imposing a national sales tax for Social Security, on top of existing Social Security payroll taxes, and to greatly increasing the debt of the U.S. by borrowing from the Treasury, in order to pay for the transitional costs from the present system.''

He said that taking into account all these taxes and benefit changes, higher-income workers would make out best in relation to what they paid in under Schieber's plan. In addition, he said, there would be tremendous pressure from people who have built up IRAs and 401(k)s with their payroll tax to be allowed to use the money before retirement for health bills, school bills and houses, sharply reducing what would be left for retirement. Moreover, he said, people who made bad or ultra-conservative investment decisions or had to retire just as the market took a nose dive would be out of luck.

All this, he argued, could leave retirement protection now provided by Social Security in tatters.

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BUSINESS WEEK February 5, 1996

EDITED BY DOUGLAS HARBRECHT

PRIVATIZE SOCIAL SECURITY? NOBODY'S LAUGHING NOW

Conservatives long have dreamed about privatizing Social Security. They argue that the massive shortfalls projected in the 21st century for Uncle Sam's retirement system can be avoided only by giving back part of Social Security's annual $400 billion tax take to individuals to invest for retirement. But elected officials—afraid to touch politics' "third rail"—never paid much heed.

Until now. Social Security privatization is about to land on Washington's center stage—launched not by the GOP, but by a panel appointed by the Clinton Administration. The panel's explosive findings portend a battle that will make the fight over Medicare cuts look like a tea party.

SOS: *A bankrupt system by 2030*

In a report expected out by mid-February, five of the 13 members of the Advisory Council on Social Security will endorse replacing half of the retirement plan with Personal Security Accounts (PSAs). These accounts, funded by diverting 5% of wages from the 15.3% payroll tax, could be put in stocks, bonds, or other investments. Those funds are likely to pay a higher return than the benefits today's workers can expect from Social Security. The plan's goals: boost private savings and give Generation X workers proof that the system will exist when they follow baby boomers into retirement.

Two more panel members are likely to support requiring workers to set up small private accounts on top of the current system. So a majority of the group will back individual accounts. An advisory panel's findings aren't binding. But the recommendations will have clout, because they're the closest thing yet to an official endorsement for "an idea that was laughed out of town in the 1980s," marvels Dallas L. Salisbury, president of the Employee Benefit Research Institute.

STRONG LURE. No one's laughing now. At least three Washington think tanks are working on privatization studies. Securities, mutual-fund, and life-insurance interests are backing some of the research, drawn by the prospect of PSA balances that could hit $60 trillion by 2035. And while no action is likely until 1997, after the election, the idea is making waves in the campaign. GOP Presidential wannabe Malcolm S. Forbes Jr. has a privatization strategy, which front-runner Senator Bob Dole (R-Kan.) charges "would end Social Security as we know it." President Clinton is also unlikely to back the plan, though the Administration won't take a stand until the report is issued.

Why the ferment? Social Security will go broke during the baby boomers' retirement years. Although annual payroll taxes now exceed benefit payouts by $60 billion, the system's cash flow will turn negative sometime around 2014. By 2030, the cushion built by today's surpluses will disappear. Worse, those operating surpluses are now parked in Treasury bonds, which help mask the true federal budget deficit. By some calculations, the payroll tax on 21st century workers might have to nearly triple, to 40%, to fill the gap. "The one thing we all agree on is that the current system can't go on," says University of Michigan economist Edward M. Gramlich, chair of the advisory panel.

Another problem: Social Security no longer delivers the fat returns that past and current retirees have enjoyed. Today's 75-year-old single man can expect to get back all the taxes he and his employers paid, with interest—plus a 75% windfall. For today's 65-year-old, the lifetime windfall shrinks to 25%. But for boomers, the oldest of whom are just turning 50, "anyone earning average or above-average wages won't even get back his or her taxes plus interest," notes benefit consultant Sylvester J. Schieber of Watson Wyatt Worldwide. Schieber helped draft the Advisory Council's PSA plan.

Even Social Security's old guard, led by the system's patriarch, ex-Social Security Commissioner Robert M. Ball, recognizes the need to boost returns. Ball and five other advisers advocate letting the government invest part of Social Security's surplus in stocks. But even Democrats quail at allowing the government to own a multitrillion-dollar stake in Corporate America.

Private accounts pose problems, too. Under the PSA plan, anyone born before 1943 would remain in the old system, while workers born between 1943 and 1963 would face a mix of old and new benefits. To pay for already earned benefits during a 70-year transition, Schieber proposes a new series of "Liberty Bonds" backed by an earmarked 1% national sales tax. At their peak, in 2050, the bonds could boost the national debt by $10.2 trillion, $1.2 trillion in '96 dollars.

Defenders of the system figure that huge price will kill privatization. They bet Congress will repeat the Social Security reforms of 1977 and 1983 by raising taxes and the retirement age and trimming benefits. "This system needs adjustment, but it's not fundamentally broken," says a White House aide.

Backers contend that tinkering isn't enough. "If you tell the American public: 'You can have a secure, funded pension, and the cost is a 1% sales tax,' they're going to think that's a pretty good deal," says Schieber. Bargain or not, that deal will soon be on the table.

By Mike McNamee

The latest push for conversion of the present system is coming from a Clinton panel

16 May 1995

MEMORANDUM FOR JOHN ANGELL

FROM: Molly Brostrom
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.

<u>Advisory Council</u>
The Social Security Advisory Council is a statutorily created 12-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:

- 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.

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.

Proposals
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.

Advisory Board
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

Side-by-Side Chart

6/1/95

Provision	Current Law	Ball Plan	Gramlich Plan	Kerrey/Simpson Legislation
1. Old-Age Benefit	Current PIA--90% of first $426 of average indexed monthly earnings (AIME), plus 32% of AIME over $426 up to $2,567, plus 15% of AIME over $2,567, based the number of years after1950--or age 21, if later--up to age 62, minus "dropout years" (up to 5 years) with maximum of 35 years.	Increase the AIME computation period from 35 to 38 yrs of earnings.	(A) First deck, flatter benefit based on years of service--$499 (1995 value) for full career (35 yrs & 10 yrs min). Second deck of 15% lifetime earnings computed like current law. 40-year phase-in to new formula between 1998-2037. (B) Alternatively, "two-bracket" PIA variant: 90% of first $640, plus 15% above $640.	Beginning in 2030, add a third bend point and 10% bracket, gradually replacing over 25 yrs the 15% bracket with the 10% and the 32% bracket partially with 15%. (Like Rostenkowski)
2. Retirement Ages	NRA, for workers 62 in 2000, increases 2 mos/yr until NRA is 66 for workers 62 in 2005 & remains 66 until 2017 (the "hiatus"). NRA increases again, for workers 62 in 2017, 2 mos/yr until NRA becomes 67. Earliest Eligibility Age (EEA) remains 62 for retired workers and spouses and 60 for widow(er)s.	Eliminate "hiatus" in NRA increase.	Eliminate "hiatus" and raise NRA at rate of 1 mo/yr until age 68 in 2035. Afterwards, NRA indexed at rate of 1 mo/2 yrs. to maintain current ratio of life expectancy to NRA. Raise EEA at corresponding NRA rate to age 65/63 in 2035. EEA is not indexed thereafter.	Eliminate "hiatus" and continue increase in NRA at 2 mo/yr to 70. Starting in 2000, also increase EEA at 2 mo/yr to 65 in 2017 and link with NRA to preserve 5-yr increase in both. NRA & EEA increased after 2030 at 1 mo/2 yrs.
3. Spouse/Survivor Benefit	Spouse receives 50% of worker's PIA, subject to early retirement reductions (either spouse or worker). Widow(er) receives 100% of deceased worker's PIA subject to early retirement reductions (either widow(er) or deceased worker).	No change from current law.	Spouse receives half of $499 basic benefit if less than 10 yrs earnings. Survivor--higher of: 75% combined couples benefit, 100% survivor's own benefit, or 100% of decedent's benefit.	Beginning in 2000, gradually reduce spousal benefit at 1 percentage point/yr until maximum benefit is 33% of PIA.
4. Disability Benefit	Disability benefits are converted to retirement benefits at NRA and generally equal 100 percent of the PIA.	No change from current law.	Benefits computed using double-decker formula and not to exceed benefit payable at EEA--80% of PIA by 2035; further declines with NRA increases after 2035. Insurance requirement similar to current law.	No change from current law.
5. Individual Accounts	No current-law provision for individual accounts under Social Security.	No provision.	Optional "buy-back" cuts in benefits by contributing extra 1-4% credited to individual account recorded by SSA. [Schieber/Vargas variant: persons under 40 optionally could divert some fraction of payroll tax to individual accounts managed by SSA conditional on extra contribution & future benefit cut.]	Mandatory diversion of 2 percentage points of each taxpayer's OASDI payroll taxes to their own "Personal Investment Plan".
6. Earnings Inclusion			Include all earnings in numerator without increasing denominator in benefit calculation (Fierst Plan).	

Side-by-Side Chart

Provision	Current Law	Ball Plan	Gramlich Plan	Kerrey/Simpson Legislation
7. Payroll Taxes	Current OASDI rate is 6.2% for employers & employees (each) and 12.4% for self-employed. HI rate is 1.45% for employers & employees (each) and 2.9% for self-employed.	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.	No change from current law.	No change from current law.
8. Taxable Earnings Base	OASDI taxes are paid on earnings up to $61,200, adjusted annually to balance increases in average wages. HI taxes are paid on total covered earnings, without limitation (starting in 1994).	Increase the base by $10,000 in two $5,000 steps in 1998 & 1999.	No change from current law.	No change from current law.
9. Benefit Taxation	Up to 50% of benefits taxable with income $25,000-$34,000 (singles) and $32,000-$44,000 (couples). Up to 85% of benefits taxable with income over $34,000 (singles) and income over $44,000 (couples). Proceeds from the 50% taxation are credited to the OASDI Trust Funds and proceeds from the 51% to 85% taxation are credited to the HI Trust Fund.	Apply taxpayer's income tax rate to part of benefit that exceeds what worker paid for couples with income above $32,000 and singles above $25,000. Return <u>all</u> proceeds of this tax to OASDI Trust Funds.	Same as Ball Plan.	Redirect current tax proceeds of Social Security benefits from HI Trust Fund to OASDI Trust Funds. No increase beyond 85% in what is included in taxable income.
10. COLA/CPI	Benefits indexed to CPI-W. COLA of 2.8% paid January 1995.	No change from current law.	No change from current law.	Limit COLAs to adjustments received by Social Security beneficiaries in the 30th percentile, but allow full COLAs to those below 30th percentile. Also limit COLAs to CPI minus .5% until a proposed CPI review panel completes its work.
11. Investment Policy	A portion of 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.	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%.	Same as Ball Plan.	Starting in 1998, phase-in investment so that in 15 yrs 25% of Trust Fund is in stock index fund.
12. Coverage of State & Local Workers	State/local employees not under a retirement system are covered mandatorily under Social Security and Medicare since 1990. Employees hired after March 31, 1986, are mandatorily covered under Medicare.	Cover under Social Security all newly-hired State & local workers after 1997 not now in a retirement system coordinated with Social Security.	Same as Ball Plan.	No change from current law.

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IPPS

Edward M. Gramlich
Director

May 8, 1995

TO: Advisory Council

FROM: Ned Gramlich Ned

RE: A plan

Being totally immersed in finishing up the academic year here, I haven't had a chance to propose my own plan. But now that Bob and Syl have come forward, I am willing to join the fun. My plan contains elements from the plans of Bob and Syl, but also drops some of their elements. It is also consistent with many of the ideas of our technical panel (TIRS), the report of which is circulated along with this memo.

I start with some principles I have used in coming up with a plan, and then sketch one out. As you read this, we are in the process of costing out a simple version of it.

Principles

o Our job is not done till the Trust Fund Ratio (TFR) is stable. I personally don't want to have the TFR declining in the outyears, as it is in the plan Bob presented at the meeting. That just means that the system is out of balance a few years later.

o No payroll tax increases. I know this is controversial, and it might not be what I favor in my heart of hearts. But if I can interpret anything about politics, it seems to me the American people are asking for a plan consistent with a 12.4 percent payroll tax rate. I am trying to give them that here. Moreover, I don't like the idea of not raising taxes now but putting in a fail-safe that raises them in the future, a la Aaron, Bosworth, and Burtless. Hence this plan has no payroll tax increases now, and none scheduled for the future.

o No credit for CPI changes. I realize there may be legislative action on this front before we do anything, but as I said at the last meeting, I personally view this as part of the real wage assumption. If the BLS changes the CPI, analysts would go back recompute real wage growth, and make new forecasts. It is my guess that once this is done, the forecast real wage growth will be about one percent, just what the Trustees are now using. Hence I'd like to leave this out of the picture.

o No further income taxation of benefits. Being a closet consumption tax supporter, at least apart from tax coherence problems, I would actually like to see benefits taxed at the 50 percent rate. I would not favor going over to Bob's new tax scheme, though it would be my second choice after 50 percent taxation (85 percent taxation gets the worst of both worlds). But I also agree with Syl that whatever the benefits taxation scheme, the revenue should not go to the trust funds; and with Carolyn, that whatever the benefits taxation scheme, there should be no thresholds.?

So present rules for taxation of benefits do not make much sense from any normative standpoint. Where this leaves me is to want to leave this whole Pandora's Box unopened. It is hard to think of a simple way to fix up the taxation of benefits, and as I said at the last meeting, I do not want to take credit for any revenues coming from the Medicare Trust Fund.

o Nonflat benefits. Having disagreed with a few of Bob's pillars, let me disagree with one of Syl's. I don't like the flat benefit schedule.

Plan

o Some rise in the NRA. Like others, I get to this very reluctantly. But I think we have to do it. I personally would take the Syl rise up til 2017 and then after that index the NRA demographically. The indexation means that the NRA rises at a very slow rate (about a half-year every ten years). If we don't do that, we'll have trouble stabilizing the TFR.

o Some rise in the EEA. I have never been a passionate follower of this debate, but barring other persuasive arguments, how about we just move the EEA up so it is always three years below the NRA until 2017, and then not index the EEA further until the gap hits five years? This means that the EEA would start climbing above 65 in about 2060. As far-sighted as I try to be, it is hard to work up too much excitement about that change.

o Equity investment. I'll go along. We do have to do some stochastic simulations to make sure that we are not taking credit for the rate-of-return gain without carefully examining the costs in terms of greater volatility (Dave is taking these steps now, though it is likely to take a while to get it all done). And Gene Steuerle is raising a number of objections that we will have to consider carefully, in memos also being circulated. But if these checks are satisfied, I'll go along.

o A flatter benefit schedule. There are zillions of possibilities. My preference is that we have some minimum amount, with Syl's adjustment for years of service. We then raise benefits by .15 of the AIME, with no bend points in the schedule. For now there is no spouse benefit -- the minimum amount may obviate the need for it -- though that should be checked. Transition problems could be handled in just the way that Syl did. I should note that this type of schedule would be strongly redistributive -- taking from the middle class and giving to the poor. This is something I personally favor.

o The voluntary individualized accounts (VIA) described in Syl's memo. We could constrain that accounts just the way Syl did -- the accounts would be in some way related to how much x's benefits were cut, with an extra flat component. It would be my hope that many people would take advantage, thereby giving middle America a strong stake in the social security system. I understand that this is nothing that people cannot already get with IRAs, though the tax limit would be more flexible and it would be easier to get the VIA from the same source that also gives x his or her basic retirement benefits. Also, the indexed annuity problem is solved.

That's it. This is obviously sketchy, but these are the principles I would like to see us build our system around. To the extent that this sort of proposal helps us, I'd like to thank Bob and Syl for putting the raw material on the table.

May 12, 1995

MEMORANDUM

From Steve Goss
Office of the Actuary, Social Security Administration

Subject: Gramlich NRA and Benefit Formula Changes

The proposal includes a change in the retirement age and in the PIA formula.

The NRA would rise by 2 months per pear beginning with those born in 1938 (attain 62 in 2000), reaching an NRA of 68 for those born in 1955 (attain 62 in 2017). The earliest eligibility age (EEA) would remain at 3 years less than the EEA. After reaching an NRA of 68, the NRA would be indexed to maintain a roughly constant ratio of life expectancy at NRA to years of potential work between ages 20 and NRA. This results in an increase of 1 month every other year. Thus the NRA would rise to 68 years and 1 month for those born in 2057 (attain 62 in 2019), etc. The disability conversion age would be set at the higher of 65 and the EEA. disabled worker benefits would be payable at the percentage of PIA payable to a retired worker beneficiary becoming entitled at the disability conversion age in the year of the disabled worker's benefit entitlement. Thus, for disabled workers entitled after 2019, 80 percent of PIA would be payable.

The PIA formula would be modified to provide a flat benefit (of the type proposed by Syl Schieber) and a proportional benefit. The flat benefit would be based on the full flat benefit amount determined for new eligibles in each year. The full flat benefit would be equivalent to $453 per month in 1995 and would be indexed by the increase in the SSA average wage indexing series (AWI) thereafter. Fully insured persons would receive 50 poercent of the full flat benefit plus the additional amount:

$$\text{full flat benefit} \times 0.5 \times \frac{(\text{Years of earns} - \text{FI require})}{(\text{Age at ent} - 22 - \text{FI require} - \text{drop out years})}$$

The above formula translates into an additional 2 percent of the full flat benefit per year of earnings beyond 10 (up to 35) for retired workers.

The proportional portion of the PIA would be 15 percent of PIA. The new benefit formula would pe phased in on a weighted basis over 20 years beginning with 1998 new eligibles. Those eligible in 1998 would receive 5 percent of the new PIA and 95 percent of the now present law PIA.

Benefits would still be subject to actuarial reduction.

The OASDI financial implications of the NRA and PIA modifications described above are illustrated in the first four attached tables (2.3 interest written in top right). The $453 full flat benefit level was selected so as to achieve long run balance and a roughly constant trust fund ratio (TRR) at the end of the long-range 75-year period. A trust fund ratio of nearyl 600 percent is indicated by the end of the period.

Annual balances of about 1 percent of payroll through 2020 suggest that a tax rate reduction of around 1 percentage point for persons below some age like 40 or 50, starting in 1998 would be possible, with a reduced PIA formula to provide only about 10 percent of AIME for the proportional benefit. This modification would eliminate the trust fund buildup in the OASDI program and transfer it, along with a portion of future revenues to a personal investment plan (PIP).

The second set of four tables illustrates the OASDI financial implications of assuming that a portion of the OASDI funds are invested in equities and/or corporate bonds with the intent to increase the average yield on the fund by 1 percent. This modified investment strategy would permit a higher full flat benefit equivalent to $499 in 1995.

Date: 05-11-95 || OASDI || Same as t95-94 with 219% BF only to 1st interval and
Catalog #95- 96T || ADJUSTED || 15% BF to 2nd through 10th intervals
Table 2.1 || COST RATE ||
1995TR ALT 2 || (Year-By-Year) ||

2.3 int

Year	Payroll Tax	Taxation of Ben	INCOME RATE	Benefit Payments	Admin Expense	Railroad Interchg	COST RATE	Balance	Adjusted COST RATE Nominal Dollars	Adjusted COST RATE Discounted Dollars
1995	12.4000	.1777	12.5777	11.2587	.1040	.1255	11.4882	+1.0895	11.31047	11.34769
1996	12.4000	.2199	12.6199	11.2908	.1107	.1207	11.5222	+1.0977	11.30230	11.33921
1997	12.4000	.2237	12.6237	11.3215	.1065	.1153	11.5432	+1.0805	11.31947	11.35619
1998	12.4000	.2291	12.6291	11.3817	.1003	.1125	11.5944	+1.0346	11.36539	11.40197
1999	12.4000	.2345	12.6345	11.4539	.0981	.1094	11.6614	+.9731	11.42693	11.46328
2000	12.4000	.2404	12.6404	11.5257	.0969	.1066	11.7292	+.9112	11.48879	11.52491
2001	12.4000	.2455	12.6455	11.5650	.0957	.1032	11.7639	+.8816	11.51841	11.55419
2002	12.4000	.2502	12.6502	11.5901	.0945	.1008	11.7854	+.8649	11.53515	11.57055
2003	12.4000	.2550	12.6550	11.6136	.0933	.0980	11.8049	+.8501	11.54991	11.58490
2004	12.4000	.2595	12.6595	11.6244	.0922	.0951	11.8117	+.8479	11.55215	11.58661
2005	12.4000	.2664	12.6664	11.6094	.0922	.0926	11.7942	+.8722	11.52777	11.56138
2006	12.4000	.2723	12.6723	11.5674	.0920	.0900	11.7494	+.9229	11.47710	11.50979
2007	12.4000	.2778	12.6778	11.5347	.0919	.0874	11.7140	+.9638	11.43621	11.46801
2008	12.4000	.2829	12.6829	11.5098	.0919	.0850	11.6867	+.9962	11.40382	11.43475
2009	12.4000	.2873	12.6873	11.4704	.0920	.0825	11.6450	+1.0424	11.35764	11.38767
2010	12.4000	.2912	12.6912	11.4284	.0919	.0777	11.5980	+1.0932	11.30683	11.33672
2011	12.4000	.2945	12.6945	11.3861	.0919	.0728	11.5509	+1.1436	11.25645	11.28621
2012	12.4000	.2980	12.6980	11.3720	.0921	.0681	11.5322	+1.1657	11.23426	11.26396
2013	12.4000	.3015	12.7015	11.3734	.0922	.0636	11.5292	+1.1723	11.22769	11.25738
2014	12.4000	.3049	12.7049	11.3868	.0921	.0593	11.5382	+1.1667	11.23329	11.26298
2015	12.4000	.3178	12.7178	11.4112	.0923	.0552	11.5587	+1.1591	11.24089	11.27062
2016	12.4000	.3298	12.7298	11.4260	.0924	.0513	11.5697	+1.1601	11.23988	11.26963
2017	12.4000	.3424	12.7424	11.4692	.0926	.0473	11.6092	+1.1332	11.26683	11.29667
2018	12.4000	.3551	12.7551	11.5284	.0929	.0437	11.6650	+1.0902	11.30983	11.33981
2019	12.4000	.3681	12.7681	11.6005	.0931	.0403	11.7339	+1.0342	11.36576	11.39591
2020	12.4000	.3815	12.7815	11.6892	.0932	.0373	11.8197	+.9618	11.43822	11.46858
2021	12.4000	.3968	12.7968	11.8315	.0935	.0346	11.9596	+.8372	11.56279	11.59350
2022	12.4000	.4125	12.8125	11.9932	.0937	.0324	12.1193	+.6932	11.70680	11.73792
2023	12.4000	.4284	12.8284	12.1647	.0939	.0305	12.2891	+.5393	11.86069	11.89224
2024	12.4000	.4445	12.8445	12.3418	.0941	.0287	12.4646	+.3799	12.02010	12.05210
2025	12.4000	.4604	12.8604	12.5191	.0941	.0271	12.6403	+.2201	12.17994	12.21239
2026	12.4000	.4749	12.8749	12.6699	.0940	.0255	12.7895	+.0855	12.31452	12.34736
2027	12.4000	.4889	12.8889	12.8093	.0938	.0240	12.9271	-.0382	12.43825	12.47143
2028	12.4000	.5017	12.9017	12.9229	.0932	.0225	13.0386	-.1369	12.53692	12.57039
2029	12.4000	.5137	12.9137	13.0157	.0925	.0210	13.1292	-.2154	12.61542	12.64912
2030	12.4000	.5248	12.9248	13.0932	.0916	.0196	13.2044	-.2796	12.67960	12.71350

Catalog #95- 96T || ADJUSTED || 15% BF to 2nd through 10th intervals
Table 2.2 || COST RATE ||
1995TR ALT 2 || (Year-By-Year) ||

23 int

Year	Payroll Tax	Taxation of Ben	INCOME RATE	Benefit Payments	Admin Expense	Railroad Interchg	COST RATE	Balance	Adjusted COST RATE Nominal Dollars	Adjusted COST RATE Discounted Dollars
2031	12.4000	.5349	12.9349	13.1563	.0908	.0182	13.2652	-.3303	12.73028	12.76431
2032	12.4000	.5441	12.9441	13.2087	.0899	.0168	13.3154	-.3713	12.77126	12.80544
2033	12.4000	.5519	12.9519	13.2401	.0889	.0154	13.3445	-.3926	12.79257	12.82682
2034	12.4000	.5587	12.9587	13.2566	.0880	.0141	13.3587	-.4000	12.79996	12.83424
2035	12.4000	.5642	12.9642	13.2553	.0870	.0128	13.3551	-.3908	12.79083	12.82511
2036	12.4000	.5684	12.9684	13.2330	.0859	.0115	13.3304	-.3620	12.76201	12.79622
2037	12.4000	.5718	12.9718	13.1958	.0848	.0103	13.2908	-.3190	12.71903	12.75314
2038	12.4000	.5745	12.9745	13.1497	.0836	.0090	13.2423	-.2678	12.66783	12.70181
2039	12.4000	.5769	12.9769	13.1039	.0826	.0078	13.1942	-.2173	12.61729	12.65115
2040	12.4000	.5786	12.9786	13.0520	.0816	.0065	13.1401	-.1615	12.56149	12.59521
2041	12.4000	.5804	12.9804	13.0137	.0807	.0053	13.0998	-.1194	12.51937	12.55299
2042	12.4000	.5814	12.9814	12.9631	.0798	.0042	13.0471	-.0657	12.46566	12.49914
2043	12.4000	.5827	12.9827	12.9217	.0790	.0030	13.0037	-.0210	12.42098	12.45434
2044	12.4000	.5842	12.9842	12.8889	.0782	.0018	12.9690	+.0152	12.38480	12.41808
2045	12.4000	.5857	12.9857	12.8622	.0774	.0007	12.9403	+.0454	12.35461	12.38781
2046	12.4000	.5876	12.9876	12.8443	.0766	-.0004	12.9205	+.0671	12.33288	12.36603
2047	12.4000	.5898	12.9898	12.8352	.0758	-.0015	12.9095	+.0803	12.31972	12.35283
2048	12.4000	.5923	12.9923	12.8350	.0751	-.0026	12.9075	+.0847	12.31525	12.34836
2049	12.4000	.5950	12.9950	12.8418	.0743	-.0036	12.9125	+.0826	12.31742	12.35054
2050	12.4000	.5983	12.9983	12.8607	.0736	-.0047	12.9296	+.0687	12.33131	12.36447
2051	12.4000	.6023	13.0023	12.8969	.0730	-.0057	12.9642	+.0382	12.36182	12.39508
2052	12.4000	.6062	13.0062	12.9342	.0723	-.0067	12.9998	+.0064	12.39356	12.42691
2053	12.4000	.6107	13.0107	12.9817	.0717	-.0077	13.0457	-.0350	12.43502	12.46848
2054	12.4000	.6149	13.0149	13.0272	.0711	-.0087	13.0896	-.0747	12.47466	12.50824
2055	12.4000	.6194	13.0194	13.0789	.0704	-.0097	13.1396	-.1202	12.52020	12.55390
2056	12.4000	.6240	13.0240	13.1311	.0698	-.0106	13.1902	-.1663	12.56625	12.60009
2057	12.4000	.6285	13.0285	13.1826	.0691	-.0115	13.2402	-.2117	12.61175	12.64571
2058	12.4000	.6328	13.0328	13.2311	.0684	-.0123	13.2872	-.2544	12.65438	12.68847
2059	12.4000	.6370	13.0370	13.2774	.0677	-.0131	13.3320	-.2949	12.69495	12.72915
2060	12.4000	.6408	13.0408	13.3178	.0670	-.0138	13.3709	-.3301	12.73006	12.76436
2061	12.4000	.6444	13.0444	13.3562	.0663	-.0145	13.4080	-.3636	12.76358	12.79798
2062	12.4000	.6472	13.0472	13.3813	.0655	-.0152	13.4317	-.3845	12.78445	12.81891
2063	12.4000	.6500	13.0500	13.4098	.0649	-.0158	13.4589	-.4089	12.80885	12.84338
2064	12.4000	.6524	13.0524	13.4315	.0642	-.0163	13.4794	-.4270	12.82702	12.86160
2065	12.4000	.6543	13.0543	13.4457	.0635	-.0169	13.4923	-.4380	12.83804	12.87266
2066	12.4000	.6558	13.0558	13.4565	.0628	-.0174	13.5019	-.4461	12.84607	12.88071
2067	12.4000	.6573	13.0573	13.4650	.0621	-.0179	13.5093	-.4520	12.85205	12.88671
2068	12.4000	.6588	13.0588	13.4759	.0615	-.0183	13.5191	-.4604	12.86036	12.89505
2069	12.4000	.6599	13.0599	13.4813	.0608	-.0187	13.5234	-.4635	12.86354	12.89824
2070	12.4000	.6626	13.0626	13.5162	.0602	-.0191	13.5573	-.4947	12.89472	.00000

Date: 05-11-95 || OASDI || Same as t95-94 with 219% BF only to 1st interval and
Catalog #95- 96T || TRUST F || 15% BF to 2nd through 10th intervals
Table 8.1 || OPERATIONS ||
1995TR ALT 2 || (Millions) ||

2.3 int

Year	Advance Transfr	Assets (BOY)	TFR	Payroll Taxes	Tax Ben (.0490)	INCOME Excludng Interest	Interest	TOTAL INCOME	Benefit Payments	Admin Expense	RRB Intrchg	TOTAL OUTGO	Assets (EOY)
1995	0	436385	128	364159	5260	369424	35901	405325	333262	3080	3715	340057	501652
1996	0	501652	140	384839	6823	391666	40942	432608	350337	3436	3745	357518	576742
1997	0	576742	153	403403	7288	410693	46601	457294	368762	3467	3755	375984	658052
1998	0	658052	166	422551	7816	430369	52581	482950	388383	3421	3840	395644	745358
1999	0	745358	179	442337	8386	450724	58634	509358	409638	3509	3912	417059	837658
2000	0	837658	190	464692	9025	473718	64952	538671	432750	3636	4004	440391	935938
2001	0	935938	201	489454	9702	499157	71614	570771	457106	3782	4078	464967	1041742
2002	0	1041742	212	516111	10437	526549	78621	605170	483416	3940	4204	491561	1155351
2003	0	1155351	222	544984	11231	556216	85927	642143	511481	4110	4318	519908	1277585
2004	0	1277585	232	575787	12082	587869	93447	681316	541163	4291	4429	549883	1409018
2005	0	1409018	242	609571	13133	622704	100616	723320	572222	4544	4563	581329	1551009
2006	0	1551009	253	645593	14216	659809	108119	767928	603852	4805	4697	613354	1705583
2007	0	1705583	264	683268	15348	698615	115968	814583	637263	5075	4831	647169	1872997
2008	0	1872997	274	722407	16524	738931	124117	863047	672280	5369	4965	682614	2053430
2009	0	2053430	285	763994	17748	781742	132556	914298	708556	5686	5099	719341	2248387
2010	0	2248387	297	807631	19017	826648	145208	971856	746271	6003	5075	757349	2462894
2011	0	2462894	309	853611	20323	873934	159125	1033058	785836	6344	5027	797207	2698745
2012	0	2698745	321	900967	21705	922671	174352	1097024	828347	6708	4964	840019	2955750
2013	0	2955750	334	950373	23165	973538	190900	1164438	873857	7080	4889	885826	3234362
2014	0	3234362	346	1002171	24706	1026877	208801	1235678	922555	7465	4805	934826	3535214
2015	0	3535214	358	1056717	27149	1083866	228119	1311986	974853	7881	4717	987451	3859749
2016	0	3859749	370	1114031	29704	1143735	248982	1392717	1029054	8321	4616	1041992	4210475
2017	0	4210475	383	1172890	32464	1205353	271432	1476785	1087448	8784	4489	1100722	4586538
2018	0	4586538	394	1234443	35439	1269883	295440	1565323	1150408	9271	4359	1164038	4987823
2019	0	4987823	405	1298896	38655	1337550	321003	1658553	1218028	9774	4235	1232037	5414339
2020	0	5414339	415	1366218	42135	1408353	348100	1756452	1290934	10297	4121	1305352	5865440
2021	0	5865440	422	1437472	46109	1483582	376533	1860115	1374822	10863	4019	1389704	6335851
2022	0	6335851	428	1511565	50404	1561968	406073	1968041	1465397	11454	3957	1480808	6823084
2023	0	6823084	432	1589364	55042	1644406	436584	2080990	1562853	12070	3914	1578837	7325237
2024	0	7325237	435	1670988	60043	1731030	467954	2198985	1667032	12708	3878	1683617	7840605
2025	0	7840605	437	1756843	65382	1822225	500091	2322316	1777866	13366	3845	1795077	8367844
2026	0	8367844	438	1848132	70954	1919086	533033	2452119	1892823	14044	3815	1910682	8909281
2027	0	8909281	439	1943415	76801	2020215	566870	2587085	2012271	14735	3771	2030776	9465590
2028	0	9465590	439	2044453	82915	2127368	601722	2729090	2135705	15403	3718	2154827	10039854
2029	0	10039854	440	2151910	89366	2241277	637775	2879051	2264148	16083	3657	2283889	10635017
2030	0	10635017	440	2265252	96098	2361349	675196	3036545	2397605	16778	3585	2417968	11253594

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Short-range accounts not shown separately-										
Total income includes Prouty reimbursements:	5	3	3	2	1	1	1	0	0	0
Taxation of benef includes M/S reimbursement:	-1170	0	0	0	0	0	0	0	0	0

Date: 05-11-95 || OASDI || Same as t95-94 with 219% BF only to 1st interval and
Catalog #95- 96T || TRUST FUND || 15% BF to 2nd through 10th intervals
Table 8.2 || OPERATIONS ||
1995TR ALT 2 || (Millions) ||

2.3 int

Year	Advance Transfr	Assets (BOY)	TFR	Payroll Taxes	Tax Ben (.0490)	INCOME Excludng Interest	Interest	TOTAL INCOME	Benefit Payments	Admin Expense	RRB Intrchg	TOTAL OUTGO	Assets (EOY)
2031	0	11253594	440	2385299	103141	2488440	714147	3202587	2536865	17499	3502	2557866	11898316
2032	0	11898316	440	2511953	110488	2622441	754790	3377231	2682229	18248	3407	2703885	12571661
2033	0	12571661	440	2645973	118051	2764023	797360	3561384	2832085	19020	3297	2854402	13278643
2034	0	13278643	442	2785075	125786	2910860	842165	3753026	2984578	19803	3169	3007550	14024118
2035	0	14024118	443	2930312	133649	3063961	889545	3953506	3139853	20600	3026	3163479	14814145
2036	0	14814145	446	3083832	141700	3225532	939928	4165461	3298830	21417	2869	3323116	15656490
2037	0	15656490	449	3246162	150046	3396208	993790	4389997	3462747	22247	2691	3487685	16558802
2038	0	16558802	453	3417337	158710	3576048	1051585	4627633	3632630	23101	2485	3658217	17528218
2039	0	17528218	457	3596061	167694	3763755	1113701	4877456	3809205	24000	2254	3835459	18570215
2040	0	18570215	462	3784344	176999	3961344	1180544	5141888	3992796	24953	1997	4019746	19692357
2041	0	19692357	468	3977964	186622	4164587	1252416	5417003	4184539	25963	1713	4212215	20897144
2042	0	20897144	473	4186158	196755	4382913	1329716	5712629	4386670	27019	1405	4415094	22194679
2043	0	22194679	480	4403351	207422	4610773	1412895	6023668	4599435	28122	1059	4628616	23589731
2044	0	23589731	486	4630708	218666	4849373	1502237	6351610	4824594	29275	680	4854549	25086792
2045	0	25086792	493	4869228	230525	5099753	1598051	6697804	5062551	30466	269	5093287	26691310
2046	0	26691310	499	5119284	243158	5362442	1700640	7063082	5315086	31705	-175	5346617	28407775
2047	0	28407775	506	5381928	256583	5638511	1810272	7448784	5583805	32989	-657	5616137	30240422
2048	0	30240422	512	5657344	270837	5928181	1927200	7855381	5869446	34322	-1181	5902586	32193216
2049	0	32193216	519	5947155	286052	6233207	2051688	8284895	6173396	35712	-1749	6207359	34270752
2050	0	34270752	525	6248884	302200	6551084	2183932	8735016	6495998	37168	-2366	6530800	36474968
2051	0	36474968	530	6564157	319590	6883748	2323927	9207675	6842878	38710	-3032	6878556	38804086
2052	0	38804086	535	6899200	338083	7237283	2471794	9709077	7213129	40329	-3743	7249714	41263449
2053	0	41263449	540	7248985	357836	7606821	2627719	10234540	7606554	42012	-4514	7644052	43853937
2054	0	43853937	544	7619970	378747	7998717	2791942	10790659	8024026	43765	-5348	8062443	46582153
2055	0	46582153	548	8006836	400901	8407737	2964738	11372475	8464678	45580	-6246	8504012	49450616
2056	0	49450616	551	8413214	424340	8837555	3146349	11983904	8929794	47453	-7210	8970037	52464483
2057	0	52464483	555	8840079	449085	9289164	3337124	12626289	9419713	49375	-8216	9460871	55629900
2058	0	55629900	558	9289930	475193	9765123	3537504	13302627	9935554	51353	-9260	9977647	58954880
2059	0	58954880	560	9762582	502709	10265291	3747986	14013277	10477576	53402	-10348	10520631	62447526
2060	0	62447526	563	10259355	531441	10790796	3969181	14759977	11044198	55531	-11478	11088250	66119252
2061	0	66119252	566	10778902	561432	11340334	4201724	15542059	11636852	57744	-12658	11681938	69979374
2062	0	69979374	569	11332056	592862	11924918	4446518	16371436	12257382	60043	-13891	12303533	74047276
2063	0	74047276	572	11907011	625642	12532653	4704382	17237036	12906364	62431	-15177	12953617	78330695
2064	0	78330695	574	12513864	659876	13173740	4976067	18149807	13586297	64914	-16525	13634686	82845816
2065	0	82845816	578	13152162	695552	13847715	5262688	19110403	14294355	67494	-17936	14343913	87612306
2066	0	87612306	581	13822694	732771	14555465	5565374	20120839	15035151	70177	-19416	15085912	92647232
2067	0	92647232	584	14526926	771780	15298706	5885186	21183892	15811171	72968	-20967	15863172	97967952
2068	0	97967952	587	15262727	812709	16075436	6223068	22298503	16625260	75870	-22589	16678542	103587914
2069	0	103587914	591	16039524	855501	16895025	6580155	23475180	17478530	78890	-24282	17533139	109529955
2070	0	109529955	593	16855475	902731	17758206	6956394	24714600	18415261	82032	-26056	18471237	115773319

Date: 05-11-95	OASDI	Same as t95-94 with 240% BF only to 1st interval and
Catalog #95- 99T	ADJUSTED	15% BF to 2nd through 10th intervals and 3.3% Real Interest
Table 2.1	COST RATE	
1995TR ALT 2	(Year-By-Year)	

3.3 int

Year	Payroll Tax	Taxation of Ben	INCOME RATE	Benefit Payments	Admin Expense	Railroad Interchg	COST RATE	Balance	Adjusted COST RATE: Nominal Dollars	Adjusted COST RATE: Discounted Dollars
1995	12.4000	.1777	12.5777	11.2587	.1040	.1255	11.4882	+1.0895	11.31047	11.34769
1996	12.4000	.2199	12.6199	11.2908	.1107	.1207	11.5222	+1.0977	11.30230	11.33921
1997	12.4000	.2237	12.6237	11.3215	.1065	.1153	11.5432	+1.0805	11.31947	11.35619
1998	12.4000	.2291	12.6291	11.3817	.1003	.1126	11.5945	+1.0345	11.36546	11.40235
1999	12.4000	.2345	12.6345	11.4539	.0981	.1095	11.6615	+.9729	11.42706	11.46404
2000	12.4000	.2404	12.6404	11.5257	.0969	.1068	11.7293	+.9110	11.48898	11.52605
2001	12.4000	.2455	12.6455	11.5650	.0957	.1036	11.7643	+.8812	11.51881	11.55668
2002	12.4000	.2502	12.6502	11.5901	.0945	.1011	11.7857	+.8646	11.53544	11.57244
2003	12.4000	.2550	12.6550	11.6136	.0933	.0984	11.8053	+.8498	11.55025	11.58715
2004	12.4000	.2595	12.6595	11.6244	.0922	.0955	11.8120	+.8475	11.55253	11.58922
2005	12.4000	.2664	12.6664	11.6094	.0922	.0931	11.7947	+.8717	11.52828	11.56444
2006	12.4000	.2723	12.6723	11.5674	.0920	.0906	11.7500	+.9223	11.47772	11.51327
2007	12.4000	.2778	12.6778	11.5347	.0919	.0882	11.7147	+.9631	11.43693	11.47189
2008	12.4000	.2832	12.6832	11.5212	.0919	.0858	11.6990	+.9842	11.41582	11.45026
2009	12.4000	.2882	12.6882	11.5090	.0920	.0834	11.6845	+1.0036	11.39635	11.43027
2010	12.4000	.2928	12.6928	11.4985	.0919	.0768	11.6693	+1.0235	11.37651	11.41069
2011	12.4000	.2968	12.6968	11.4892	.0919	.0742	11.6553	+1.0415	11.35849	11.39292
2012	12.4000	.3012	12.7012	11.5101	.0921	.0697	11.6719	+1.0293	11.37070	11.40548
2013	12.4000	.3056	12.7056	11.5475	.0922	.0654	11.7051	+1.0006	11.39943	11.43430
2014	12.4000	.3101	12.7101	11.5975	.0921	.0612	11.7509	+.9592	11.44081	11.47580
2015	12.4000	.3242	12.7242	11.6591	.0923	.0573	11.8086	+.9155	11.48447	11.51962
2016	12.4000	.3375	12.7375	11.7109	.0924	.0535	11.8568	+.8807	11.51932	11.55461
2017	12.4000	.3514	12.7514	11.7904	.0926	.0497	11.9328	+.8186	11.58139	11.61689
2018	12.4000	.3656	12.7656	11.8846	.0929	.0462	12.0237	+.7418	11.65818	11.69394
2019	12.4000	.3800	12.7800	11.9901	.0931	.0430	12.1262	+.6538	11.74623	11.78228
2020	12.4000	.3947	12.7947	12.1109	.0932	.0400	12.2442	+.5506	11.84943	11.88583
2021	12.4000	.4115	12.8115	12.2857	.0935	.0374	12.4165	+.3950	12.00497	12.04188
2022	12.4000	.4287	12.8287	12.4791	.0937	.0352	12.6081	+.2206	12.17935	12.21682
2023	12.4000	.4461	12.8461	12.6817	.0939	.0334	12.8090	+.0372	12.36281	12.40087
2024	12.4000	.4638	12.8638	12.8889	.0941	.0316	13.0146	-.1509	12.55088	12.58955
2025	12.4000	.4811	12.8811	13.0952	.0941	.0301	13.2193	-.3382	12.73820	12.77748
2026	12.4000	.4971	12.8971	13.2727	.0940	.0285	13.3952	-.4981	12.89813	12.93793
2027	12.4000	.5124	12.9124	13.4369	.0938	.0270	13.5577	-.6453	13.04530	13.08558
2028	12.4000	.5265	12.9265	13.5726	.0932	.0255	13.6913	-.7648	13.16478	13.20545
2029	12.4000	.5398	12.9398	13.6851	.0925	.0240	13.8016	-.8618	13.26185	13.30285
2030	12.4000	.5520	12.9520	13.7805	.0916	.0226	13.8946	-.9427	13.34267	13.38395

Date: 05-11-95 || OASDI || Same as t95-94 with 240% BF only to 1st interval and
Catalog #95- 99T || ADJUSTED || 15% BF to 2nd through 10th intervals and 3.3% Real Interest
Table 2.2 || COST RATE ||
1995TR ALT 2 || (Year-By-Year) ||

3.3 int

Year	Payroll Tax	Taxation of Ben	INCOME RATE	Benefit Payments	Admin Expense	Railroad Interchg	COST RATE	Balance	Adjusted COST RATE Nominal Dollars	Adjusted COST RATE Discounted Dollars
2031	12.4000	.5631	12.9631	13.8594	.0908	.0211	13.9713	-1.0082	13.40816	13.44967
2032	12.4000	.5733	12.9733	13.9260	.0899	.0197	14.0356	-1.0623	13.46231	13.50400
2033	12.4000	.5820	12.9820	13.9694	.0889	.0183	14.0766	-1.0946	13.49462	13.53644
2034	12.4000	.5895	12.9895	13.9959	.0880	.0169	14.1007	-1.1112	13.51121	13.55309
2035	12.4000	.5957	12.9957	14.0023	.0870	.0156	14.1049	-1.1092	13.50916	13.55106
2036	12.4000	.6004	13.0004	13.9855	.0859	.0142	14.0857	-1.0853	13.48526	13.52710
2037	12.4000	.6042	13.0042	13.9522	.0848	.0129	14.0499	-1.0456	13.44560	13.48734
2038	12.4000	.6074	13.0074	13.9086	.0836	.0116	14.0038	-.9965	13.39649	13.43809
2039	12.4000	.6100	13.0100	13.8645	.0826	.0103	13.9574	-.9473	13.34734	13.38880
2040	12.4000	.6120	13.0120	13.8135	.0816	.0090	13.9040	-.8920	13.29200	13.33330
2041	12.4000	.6141	13.0141	13.7761	.0807	.0077	13.8646	-.8505	13.25052	13.29170
2042	12.4000	.6153	13.0153	13.7251	.0798	.0065	13.8114	-.7961	13.19611	13.23713
2043	12.4000	.6168	13.0168	13.6833	.0790	.0052	13.7676	-.7508	13.15081	13.19169
2044	12.4000	.6184	13.0184	13.6504	.0782	.0040	13.7326	-.7142	13.11424	13.15502
2045	12.4000	.6200	13.0200	13.6235	.0774	.0028	13.7037	-.6837	13.08369	13.12439
2046	12.4000	.6221	13.0221	13.6058	.0766	.0016	13.6840	-.6619	13.06189	13.10252
2047	12.4000	.6245	13.0245	13.5972	.0758	.0005	13.6734	-.6490	13.04897	13.08957
2048	12.4000	.6271	13.0271	13.5979	.0751	-.0007	13.6722	-.6451	13.04511	13.08570
2049	12.4000	.6301	13.0301	13.6058	.0743	-.0018	13.6783	-.6482	13.04818	13.08879
2050	12.4000	.6336	13.0336	13.6264	.0736	-.0029	13.6971	-.6635	13.06352	13.10419
2051	12.4000	.6379	13.0379	13.6653	.0730	-.0040	13.7343	-.6964	13.09639	13.13716
2052	12.4000	.6420	13.0420	13.7053	.0723	-.0051	13.7725	-.7305	13.13048	13.17137
2053	12.4000	.6468	13.0468	13.7561	.0717	-.0062	13.8216	-.7748	13.17481	13.21585
2054	12.4000	.6513	13.0513	13.8046	.0711	-.0072	13.8684	-.8172	13.21716	13.25833
2055	12.4000	.6561	13.0561	13.8595	.0704	-.0082	13.9217	-.8657	13.26568	13.30701
2056	12.4000	.6609	13.0609	13.9150	.0698	-.0092	13.9756	-.9147	13.31469	13.35618
2057	12.4000	.6657	13.0657	13.9699	.0691	-.0102	14.0288	-.9631	13.36309	13.40474
2058	12.4000	.6703	13.0703	14.0214	.0684	-.0111	14.0787	-1.0084	13.40842	13.45021
2059	12.4000	.6747	13.0747	14.0705	.0677	-.0119	14.1263	-1.0515	13.45154	13.49348
2060	12.4000	.6788	13.0788	14.1134	.0670	-.0127	14.1677	-1.0889	13.48889	13.53095
2061	12.4000	.6825	13.0825	14.1542	.0663	-.0134	14.2071	-1.1245	13.52453	13.56671
2062	12.4000	.6855	13.0855	14.1809	.0655	-.0141	14.2323	-1.1467	13.54674	13.58900
2063	12.4000	.6885	13.0885	14.2111	.0649	-.0148	14.2613	-1.1727	13.57272	13.61506
2064	12.4000	.6910	13.0910	14.2342	.0642	-.0154	14.2830	-1.1921	13.59206	13.63447
2065	12.4000	.6930	13.0930	14.2493	.0635	-.0159	14.2968	-1.2038	13.60383	13.64628
2066	12.4000	.6947	13.0947	14.2608	.0628	-.0165	14.3071	-1.2124	13.61244	13.65492
2067	12.4000	.6962	13.0962	14.2699	.0621	-.0170	14.3151	-1.2189	13.61888	13.66139
2068	12.4000	.6978	13.0978	14.2816	.0615	-.0175	14.3256	-1.2278	13.62781	13.67034
2069	12.4000	.6989	13.0989	14.2873	.0608	-.0179	14.3302	-1.2313	13.63128	13.67383
2070	12.4000	.7018	13.1018	14.3243	.0602	-.0183	14.3662	-1.2644	13.66437	.00000

Date: 05-11-95 || OASDI || 8 as t95-94 with 240% BF only to 1st interval and
Catalog #95- 99T || TRUST F || 15% BF to 2nd through 10th intervals and 3.3% Real Interest
Table 8.1 || OPERATI ||
1995TR ALT 2 || (Millions) ||

3.3 int

Year	Advance Transfr	Assets (BOY)	TFR	Payroll Taxes	Tax Ben (.0490)	INCOME Excludng Interest	Interest	TOTAL INCOME	Benefit Payments	Admin Expense	RRB Intrchg	TOTAL OUTGO	Assets (EOY)
1995	0	436385	128	364159	5260	369424	35900	405324	333262	3080	3715	340057	501652
1996	0	501652	140	384839	6823	391666	40942	432608	350337	3436	3745	357518	576742
1997	0	576742	153	403403	7288	410693	46601	457294	368762	3467	3755	375984	658052
1998	0	658052	166	422551	7816	430369	53050	483419	388383	3421	3842	395646	745824
1999	0	745824	179	442337	8386	450724	59728	510452	409638	3509	3917	417063	839213
2000	0	839213	191	464692	9025	473718	66852	540570	432750	3636	4011	440398	939385
2001	0	939385	202	489454	9702	499157	76240	575397	457106	3782	4094	464982	1049799
2002	0	1049799	214	516111	10437	526549	82922	609471	483416	3940	4216	491573	1167698
2003	0	1167698	225	544984	11231	556216	91768	647983	511481	4110	4333	519923	1295757
2004	0	1295757	236	575787	12082	587869	101139	689008	541163	4291	4447	549901	1434864
2005	0	1434864	247	609571	13133	622704	110503	733207	572222	4544	4588	581355	1586717
2006	0	1586717	259	645593	14216	659809	120600	780409	603852	4805	4730	613386	1753740
2007	0	1753740	271	683268	15348	698615	131502	830117	637263	5075	4871	647208	1936649
2008	0	1936649	283	722407	16539	738946	143178	882124	672949	5369	5012	683330	2135442
2009	0	2135442	296	763994	17801	781794	155623	937418	710945	5686	5153	721785	2351075
2010	0	2351075	309	807631	19117	826748	172977	999726	750860	6003	5146	762000	2588801
2011	0	2588801	322	853611	20482	874093	192270	1066363	792946	6344	5118	804409	2850755
2012	0	2850755	335	900967	21936	922903	213617	1136519	838404	6708	5077	850188	3137086
2013	0	3137086	349	950373	23482	973855	234905	1208760	887236	7080	5022	899338	3446507
2014	0	3446507	362	1002171	25122	1027293	257862	1285155	939629	7465	4961	952055	3779607
2015	0	3779607	375	1056717	27692	1084409	282559	1366968	996027	7881	4895	1008803	4137772
2016	0	4137772	387	1114031	30395	1144425	309139	1453564	1054709	8321	4819	1067849	4523487
2017	0	4523487	400	1172890	33319	1206209	337654	1543863	1117902	8784	4716	1131403	4935947
2018	0	4935947	411	1234443	36478	1270922	368074	1638995	1185957	9271	4610	1199838	5375105
2019	0	5375105	422	1298896	39895	1338791	400401	1739192	1258942	9774	4510	1273226	5841071
2020	0	5841071	432	1366218	43595	1409813	434618	1844431	1337510	10297	4419	1352226	6333276
2021	0	6333276	439	1437472	47818	1485290	470491	1955782	1427591	10863	4340	1442794	6846263
2022	0	6846263	444	1511565	52384	1563948	507745	2071693	1524771	11454	4303	1540528	7377428
2023	0	7377428	448	1589364	57318	1646682	546211	2192894	1629267	12070	4285	1645622	7924699
2024	0	7924699	451	1670988	62641	1733628	585749	2319377	1740926	12708	4274	1757909	8486167
2025	0	8486167	452	1756843	68326	1825169	626234	2451403	1859667	13366	4268	1877301	9060270
2026	0	9060270	453	1848132	74265	1922397	667699	2590096	1982873	14044	4263	2001180	9649185
2027	0	9649185	453	1943415	80497	2023912	710239	2734151	2110858	14735	4244	2129837	10253500
2028	0	10253500	453	2044453	87017	2131470	753990	2885460	2243072	15403	4216	2262692	10876269
2029	0	10876269	453	2151910	93896	2245806	799163	3044969	2380606	16083	4179	2400868	11520370
2030	0	11520370	453	2265252	101074	2366326	845947	3212273	2523455	16778	4131	2544364	12188278

Short-range accounts not shown separately-	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total income includes Prouty reimbursements:	5	3	3	2	1	1	1	0	0	0
Taxation of benef includes M/S reimbursement:	-1170	0	0	0	0	0	0	0	0	0

Date: 05-11-95 || OASDI || as t95-94 with 240% BF only to 1st interval and
Catalog #95- 99T || TRUST FUND || 15% BF to 2nd through 10th intervals and 3.3% | l Interest
Table 8.2 || OPERATIONS ||
1995TR ALT 2 || (Millions) ||

3.3int

Year	Advance Transfr	Assets (BOY)	TFR	Payroll Taxes	Tax Ben (.0490)	INCOME Excludng Interest	Interest	TOTAL INCOME	Benefit Payments	Admin Expense	RRB Intrchg	TOTAL OUTGO	Assets (EOY)
2031	0	12188278	452	2385299	108585	2493884	894527	3388410	2672452	17499	4071	2694022	12882666
2032	0	12882666	462	2511953	116418	2628371	945084	3573455	2827894	18248	4000	2850143	13605978
2033	0	13605978	452	2645973	124481	2770453	997896	3768350	2988070	19020	3912	3011002	14363326
2034	0	14363326	452	2785075	132725	2917800	1053332	3971133	3151010	19803	3806	3174619	15159839
2035	0	15159839	454	2930312	141104	3071416	1111809	4183225	3316804	20600	3684	3341088	16001976
2036	0	16001976	456	3083832	149678	3233510	1173852	4407362	3486428	21417	3548	3511392	16897946
2037	0	16897946	458	3246162	158562	3404724	1240044	4644768	3661228	22247	3389	3686865	17855849
2038	0	17855849	462	3417337	167782	3585119	1310944	4896064	3842280	23101	3203	3868584	18883329
2039	0	18883329	465	3596061	177337	3773398	1387041	5160439	4030332	24000	2990	4057322	19986445
2040	0	19986445	470	3784344	187229	3971574	1468847	5440420	4225747	24953	2751	4253451	21173415
2041	0	21173415	475	3977964	197454	4175419	1556760	5732179	4429702	25963	2483	4458148	22447446
2042	0	22447446	480	4186158	208213	4394371	1651295	6045665	4644524	27019	2191	4673734	23819378
2043	0	23819378	486	4403351	219533	4622884	1753027	6375911	4870524	28122	1860	4900506	25294783
2044	0	25294783	492	4630708	231463	4862170	1862341	6724512	5109620	29275	1494	5140389	26878906
2045	0	26878906	498	4869228	244041	5113269	1979652	7092921	5362206	30466	1097	5393769	28578058
2046	0	28578058	505	5119284	257437	5376721	2105372	7482093	5630194	31705	666	5662565	30397586
2047	0	30397586	511	5381928	271671	5653599	2239872	7893471	5915294	32989	196	5948479	32342578
2048	0	32342578	517	5657344	286781	5944125	2383506	8327631	6218288	34322	-316	6252293	34417916
2049	0	34417916	523	5947155	302909	6250064	2536647	8786711	6540673	35712	-874	6575512	36629115
2050	0	36629115	529	6248884	320023	6568906	2699592	9268498	6882779	37168	-1481	6918466	38979147
2051	0	38979147	535	6564157	338452	6902609	2872397	9775006	7250593	38710	-2138	7287164	41466989
2052	0	41466989	540	6899200	358048	7257248	3055261	10312509	7643153	40329	-2841	7680640	44098858
2053	0	44098858	545	7248985	378979	7627964	3248467	10876430	8060266	42012	-3606	8098672	46876616
2054	0	46876616	549	7619970	401135	8021104	3452362	11473467	8502835	43765	-4434	8542165	49807918
2055	0	49807918	553	8006836	424606	8431442	3667351	12098793	8969940	45580	-5328	9010112	52896518
2056	0	52896518	557	8413214	449438	8862652	3893800	12756452	9462946	47453	-6289	9504110	56148860
2057	0	56148860	560	8840079	475653	9315732	4132211	13447943	9982231	49375	-7292	10024314	59572489
2058	0	59572489	563	9289930	503311	9793240	4383197	14176437	10528964	51353	-8331	10571985	63176941
2059	0	63176941	567	9762582	532460	10295041	4647449	14942491	11103436	53402	-9413	11147425	66972007
2060	0	66972007	570	10259355	562897	10822252	4925806	15748058	11703996	55531	-10537	11748989	70971075
2061	0	70971075	573	10778902	594667	11373569	5219151	16592720	12332126	57744	-11710	12378160	75185635
2062	0	75185635	577	11332056	627960	11960016	5528690	17488706	12989789	60043	-12934	13036897	79637444
2063	0	79637444	580	11907011	662685	12569696	5855548	18425244	13677629	62431	-14211	13725849	84336839
2064	0	84336839	584	12513864	698948	13212812	6200789	19413601	14398249	64914	-15549	14447614	89302826
2065	0	89302826	588	13152162	736738	13888900	6566926	20454826	15148673	67494	-16949	15199218	94558434
2066	0	94558434	592	13822694	776162	14598856	6952507	21551363	15933816	70177	-18417	15985577	100124220
2067	0	100124220	596	14526926	817485	15344410	7362022	22706432	16756314	72968	-19955	16809327	106021326
2068	0	106021326	600	15262727	860840	16123566	7795842	23919408	17619161	75870	-21563	17673468	112267265
2069	0	112267265	604	16039524	906168	16945693	8255587	25201279	18523537	78890	-23241	18579186	118889359
2070	0	118889359	607	16855475	956197	17811672	8741431	26553103	19516285	82032	-24999	19573318	125869144

Comparison of OASDI Cost Rates, Income Rates, Annual Balances, and Combined Trust Fund Ratios
for Advisory Council Options -- May 19, 1995

Annual Balances (Tax Income - Cost)/Payroll; Trust Fund Ratios (Assets/Annual Cost)

Year	Annual Balances: Present Law	Annual Balances: Ball Proposal	Annual Balances: Gramlich Proposal	Trust Fund Ratios: Present Law	Trust Fund Ratios: Ball Proposal	Trust Fund Ratios: Gramlich Proposal
2000	0.91 %	1.86 %	0.91 %	190 %	210 %	191 %
2010	0.42	1.81	1.02	268	419	309
2020	-2.09	0.19	0.55	201	551	432
2030	-4.19	-1.93	-0.94	3	538	453
2040	-4.32	-2.34	-0.89	--	516	470
2050	-4.45	-2.68	-0.66	--	489	529
2060	-5.20	-1.46 *	-1.08	--	415	570
2070	-5.71	-1.94 *	-1.26	--	419 *	607

* 3.46 & 3.94 without 2060 payroll tax increase

* 297 without 2060 payroll tax increase

Annual Cost Rates (Cost/Payroll)

Year	Present Law	Ball Proposal	Gramlich Proposal
2000	11.73 %	11.41 %	11.73 %
2010	12.29	11.59	11.67
2020	14.97	13.47	12.24
2030	17.26	15.92	13.89
2040	17.48	16.48	13.90
2050	17.66	16.91	13.70
2060	18.49	17.81	14.17
2070	19.04	18.38	14.37

Annual Income Rates (Tax Income/Payroll)

Year	Present Law	Ball Proposal	Gramlich Proposal
2000	12.64 %	13.26 %	12.64 %
2010	12.71	13.40	12.69
2020	12.88	13.66	12.79
2030	13.08	13.89	12.95
2040	13.16	14.13	13.01
2050	13.21	14.23	13.03
2060	13.28	16.36 *	13.08
2070	13.33	16.44 *	13.10

* 14.35 & 14.44 without 2060 payroll tax increase

Proposal Provisions

Ball Proposal
Increase computation Years to 38 by 1999.
Increase taxable maximum additional $10,000 by 1999.
Increase payroll tax 0.2 each in 1998.
Cover new hire State and local after 1997.
Transfer all tax on benefits to OASDI.
Tax benefits like other pensions.
Eliminate hiatus in NRA increase.
Partially invest in private assets with goal to
    increase yield by 1.5 percentage points.
Increase payroll tax by additional 1.0 percent each
    in 2060.

Gramlich Proposal
Increase NRA to 68, EEA to 65, by 2017,
    index NRA thereafter until NRA=70 & EEA=65, 2070
    continue indexing NRA and EEA thereafter.
DI conversion at age 65, or current EEA if higher.
    Pay DIB the % of PIA for retired worker becoming
      entitled at the current DIB conversion age.
Replace PIA formula with :
    Flat benefit up to $500, reduced if less than
      35 years of earnings, plus
    15 percent of AIME
  Phased in for new eligibles 1998-217
Eliminate benefits for spouses of retired and
    disabled workers.
Pay Surviving spouse MAX(ownPIA, spousePIA, .75X sum)
Partially invest in private assets with goal to
    increase yield by 1.0 percentage point.

Office of the Actuary Social Security Administration
May 18, 1995

Author: ^OLCA INFO at ^S5B
Date: 5/26/95 12:45 PM
Priority: Normal
Subject: Report on Advisory Council Meeting--May 19, 1995
------------------------------------ Message Contents ------------------------------------

Report on Social Security Advisory Council Meeting on May 19

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

The Council began by discussing a proposal by Edith Fierst to count all earnings , not just the highest 35 years of earnings, when determining Social Security benefits. Steve Goss, OACT, said that using all earnings, but keeping the present 35-year computation period would cost about 0.30 percent of taxable payroll. Increasing the computation period to 38 years would result in a no-cost proposal.

After some discussion the Council decided that, in principle, workers should get more credit toward Social Security benefits if they have additional years of earnings. The particulars of the proposal would depend on any other benefit computation changes the Council decides are necessary or desirable.

The Council then discussed a second proposal by Ms. Fierst to tax employers, but not employees on any fringe benefits that workers receive. She thinks that this would be preferable to an increase in payroll taxes as a way to increase revenues. It is estimated that this proposal would increase revenues by 1.1 percent of taxable payroll. There was little support for this idea. Reasons stated for nonsupport were because it would be technically difficult to do, it would be politically unpopular, it would break the tradition of equal payments by employers and employees, and it would complicate the program.

Chairman Gramlich then described the plan that he had developed. It is a double decker plan with the nonearnings-related first deck based on the number of years of work and an earnings-related second deck, In addition, the plan would increase normal retirement age to 68 by 2017 and provide for indexing it for subsequent years based on improvements in life expectancy. The plan is specifically designed to maintain the current 12.4 percent tax rate and maintain current benefit levels for low earners. As a result, benefits for average and high earners would be cut about 30 percent. The plan is also structured to result in a stable trust fund ratio at the end of the 75-year period. The Chairman also noted that the plan could provide a voluntary individualized account in addition to the basic benefit.

Many of the Council members were concerned that the benefit cuts required by this plan were excessive and may result in an unstable system. Carolyn Weaver pointed out that comparing benefit levels to current law was unfair because the current benefit levels are unsustainable. The system will eventually be bankrupt and no benefits will be payable. Robert Ball said that was true only if you hold the tax rate at 12.4 percent. He pointed out that under his plan benefit levels very close to present law are sustainable with only a modest tax increase.

During an extended discussion of this plan it became clear that there were two points of view among the Council members. Some members wanted to maintain something like the current system and favored minor tax increases and benefits cuts. Others wanted a much "smaller" Social Security system that could be supported by the current amount of taxes and favored large benefit cuts in the future.

The Council members who favored raising taxes were mainly concerned with maintaining current levels of income security in retirement. They were concerned that decreases in the level of Social Security benefits would not be made up by other kinds of retirement income or savings. The members who favored cutting benefits were concerned about the lack of confidence and support for the system among younger people and the poor rates of return for young workers and for high earners. They thought that tax increases were either politically unfeasible or that the current 12.4 percent tax rate was high enough to support a basic plan.

Sylvester Schieber pointed out that there are only two alternatives--raise taxes or reduce benefits. Under both alternatives, workers would have a lower rate of return than they currently have. If taxes are raised they are paying more for the same benefit and if benefits are cut, they are paying the same amount but getting less. Although neither choice is attractive, there are no other options.

Chairman Gramlich said that one strong point of his plan is that it provides stable trust fund ratios so that the system does not face a crisis of declining trust fund ratios in another few years. The members generally agreed that this was a worthy goal to strive for and both the Gramlich plan and the Ball plan achieved this goal. Most of the members also agreed that, at least in principle, any revised plan should include covering all newly hired State and local employees.

Some members objected to the piecemeal approach that the Council was taking. They wanted to look at the overall plans, rather than the specific items. Both Mr. Ball and Ms. Weaver pointed out that, for example, in 1983 the Bipartisan Commission reached agreement on an overall plan even though many members voted against most of the specific items included in that plan. Chairman Gramlich agreed to poll the members to see if they favored a plan like his, that cut benefits and did not raise taxes, or a plan like Mr. Ball's that preserves the current level of benefits, but increases taxes.

Mr. Ball said that he favors his plan. Tom Jones said he favors a plan like Ball's because it shows the public the cost of keeping the current system. He also said that he considers this a "balanced" plan because it has both small benefit cuts and tax increases. In his estimation only 1/3 of the shortfall comes from increased FICA taxes. George Kourpias said he was leaning toward Ball's plan with some variations.

Marc Twinney said he was leaning toward Gramlich's plan, however, he was uncomfortable with increasing the retirement age, especially the early retirement age. He also stated that increasing the retirement age to 70, as in the recently-introduced Kerrey-Simpson plan, was too much. He said the Ball plan should be included in the Council's report as an example of how "painful" it would be to keep present law.

Gerald Shea said he was leaning toward the Ball plan. He doesn't like increases in the retirement age because of differential impacts on minorities and blue collar workers. He thinks the tax increase in the Ball plan is modest, and he pointed out that the overall tax rate in the United States is low compared to other industrialized countries.

Ms. Fierst indicated that she was not in favor of a drastic benefit cut and was also reluctant to raise taxes. She stated that she was in favor of increasing both early and normal retirement age, but wants some kind of "safety net" for people who already have worked a full career by age 62.

Sylvester Schieber said he was leaning toward something like the Gramlich plan. He said any plan with significant tax increases would not receive serious consideration in Congress. He said he was not in favor of indexing the normal retirement age.

Joan Bok indicated that she was leaning toward the Ball plan, but favored further increases in the retirement age in order to reduce the amount of tax increase required. Ann Combs indicated that she was leaning toward the Gramlich plan. She thinks that individuals can compensate for reduced Social Security benefits through savings, but would not rule out the possibility of increases in tax rate or in the contribution and benefit base. She favors raising normal retirement age to 70 and to preserving current benefit levels for very low earners. Gramlich said he favored his plan.

Ms. Weaver said she leaned toward Gramlich's plan, but said it did not go far enough. She said Social Security should focus public resources on people in need and reduce disincentives to work and saving. She favors something more like a defined contribution plan along the lines of the Kerrey-Simpson proposal. Gloria Johnson said she favored something more like the Ball plan and was opposed to increasing the retirement age.

The Council then decided to discuss the question of increasing retirement age and the possibility of personalized retirement accounts either on a voluntary or mandatory basis as a replacement for part of the FICA tax.

The Council agreed that the current hiatus in the increase in the retirement age should be eliminated. In addition, more than half of the members thought that the ultimate normal retirement age should be raised to at least 68 with early retirement age 3 years earlier than that. In response to a question, Dave Lindeman, Executive Director of the Council, said that increasing early retirement age by itself would have little effect on the issue of cost because of the actuarial nature of the benefit reductions. Ms. Weaver pointed out that the major reason for an increase is the question of the message sent to people about how long they should be expected to work. If you continue to make benefits available at 62, people who can afford to do so will continue to retire then.

Mr. Twinney and Mr. Ball pointed out that there is no current experience with the increase in retirement age currently in the law. They thought that it would be premature to further increase the age without first seeing the response to the current increase. Other members were concerned about people who were unable to continue to work but who were not disabled enough to get disability benefits, or people who had no jobs or who lost their jobs due to "downsizing" or other corporate strategies to get rid of older, more expensive, workers.

Members who favored raising retirement age said that workers would save to cover the possibility of early retirement. However, those members who did not favor an increase said that workers, especially those with average or below average earnings, found it difficult or impossible to save. Schieber said that one way was to force savings through the addition of individualized retirement accounts that people could, if they wanted, use to fund early retirement.

Chairman Gramlich pointed out that raising normal retirement age to 68 amounted to a benefit cut of about 6 1/2 percent for people who continued to retire at the same age and asked for a sense of the members on increasing the age. Many of the members said that they could not vote for or against a raise unless it was part of an overall plan. Those voting were evenly split between those favoring and those opposing an increase in the normal retirement age. (There were 4 abstensions from this vote from members who only wanted to vote on this issue as part of a comprehensive package.)

During the discussion of individualized accounts that followed, Ms. Weaver said that the proposals diverting 1 or 2 percent of taxes to individualized accounts did not go far enough and would not solve the "savings problem". Many members were concerned that diverting taxes to individualized accounts would undermine the current system . They suggested allowing voluntary payments to these accounts in addition to the current tax payments. Some members were also concerned about the possibility of diverting money in these individualized accounts to things such as home purchases, educational expenses, or medical emergencies.

Mr. Ball said the idea of individualized accounts was interesting, but he wanted to see a detailed plan of how to go to a plan like the Kerrey-Simpson plan without drastically cutting benefits and without cutting benefits for people currently receiving them.

Mr. Lindeman said that it is not possible to divert 2 percent of current FICA taxes to individualized accounts without cutting benefits for current retirees and that one way this is handled in the Kerrey-Simpson plan is through cuts in the COLA. However, he said that the Gramlich plan the members were considering had a variation that diverts 1 percent of taxes to individualized accounts without affecting benefits for current retirees.

Although there was much sentiment that individualized accounts might have some promise, the members decided that they needed to see a detailed plan with a transition procedure before they could make any firm conclusions about such plans. Further, they did not want a plan that would require cutting benefits for current retirees.

The Council adjourned until the meeting scheduled for June 2.

Privatizing Social Security Best Bet For Future Retirees, Boosters Say

Proposal Would Divert Portion of Contributions to Individual Accounts

By Spencer Rich
Washington Post Staff Writer

For the 27 years she worked at Bell Communications, Martha Brandriff, 73, of Pitman, N.J., faithfully took advantage of the company's retirement programs, including a savings plan.

Having cautiously put her money into bank accounts and a variety of stocks and mutual funds over the decade since she retired, Brandriff now lives comfortably in her own house. Her kind of experience with not-too-wild, not-too-cautious investing is exactly the scenario some members of this year's Social Security Advisory Council envision in proposing a revolutionary change in how the nation's retirement system works.

The 13-member council has scheduled its final meeting Saturday, when it will discuss three proposals on how to strengthen the Social Security system.

Under one option for shoring up the system against future financing problems, called "privatization," people would be required to divert part of their Social Security payroll tax payments over their working lifetimes into personal Social Security individual retirement accounts (SSIRAs) and invest the money in mutual funds, stocks, bonds, and other savings more or less the way Brandriff and millions of others now do with existing IRA accounts.

The privatization idea has gained steam because Social Security's cur- : reserves are projected to turn into deficits after the huge baby boom generation starts retiring in 2010. By 2030, total income each year will not cover all benefits. All of the council's proposals to strengthen Social Security include some mix of tax increases, benefit cuts and retirement-age increases. Advocates of privatization contend it can make the pain of those remedies less severe and that it would also make the economy grow faster by pumping money into the private sector to help businesses expand.

Critics say privatization is unlikely to produce the predicted benefit and would weaken the absolute govern- t guarantee of old-age benefits that do not depend on the vagaries of the market.

Individual workers and their employers currently pay equal shares of Social Security tax at a rate of 6.2 per- each on the first $62,700 a year of wages. Under privatization, a large chunk of that money would go to a retirement account controlled by the worker rather than to the govern- , so that the funds could be invested in the financial markets on the assumption that they would grow faster that way.

One proposal developed by some members of the advisory council would have 5 percentage points (that is, five-sixths of the worker's 6.2 percent) going into the special retirement accounts. At retirement, each person who had worked a full lifetime would get a Social Security benefit worth $400 a month in 1995 dollars—about half the average benefit retired workers receive today—plus, advocates envision, high proceeds from the SSIRA. The total would be higher than if Social Security were not changed. This projection is based on the past performance of long-term holdings in the stock market.

According to market analysts at Ibbotson Associates, if someone invested $10,000 in 1960 in a stock market fund based on the Standard and Poor 500-stock index and reinvested the dividends each year, by the end of 1995 he would have had $393,306 in today's dollars, eight times the amount needed to keep up with inflation. Even the fifth-worst-performing equity mutual fund would have produced $214,000 over the same period, according to Lipper Analytical Services.

The 5 percent plan is sponsored by council member Sylvester J. Schieber of Watson Wyatt Worldwide with four co-sponsors, including Carolyn Weaver, former Social Security aide to Senate Majority Leader Robert J. Dole (R-Kan.).

Despite rosy scenarios, the Schieber plan is strongly opposed by Save Our Security, a coalition of aging, disability and labor groups; major unions; and long-time supporters and builders of the system such as former commissioner Robert Ball.

Critics fear a broad privatization plan ultimately could unravel political support for Social Security. They say that high-income workers, who pay the most Social Security taxes and would have the most to invest in their SSIRAs, might try to opt out of the program altogether so they could use all their Social Security taxes for private investment.

Henry Aaron, director of economic studies at the Brookings Institution, said this would remove substantial sums from the system that now help subsidize benefits for low-income retirees, disabled people and their families. And that would undermine the whole system.

Any plan letting individuals divert a large share of Social Security taxes into private investments "wouldn't do much good," said Aaron, "and it could ruin the best and most successful social program" in the nation's history.

A White House spokesman said, "The president is opposed to the privatization of Social Security or efforts to make it less dependable for recipients."

Schieber's is not the only privatization plan emerging from the Social Security Advisory Council. Chairman Edward Gramlich has proposed adding to the 6.2 percent tax an extra 1.6 percentage mandatory contribution by employees for investment in an SSIRA. But the worker's investments would be limited to a handful of government-selected options such as an S&P 500-stock index fund or Treasury bonds.

Ball and five allies on the Council oppose giving each person a private account. But they favor letting the government directly invest up to a third of any Social Security reserves in the stock market, where the funds should earn much higher returns than they now obtain by being invested in Treasury bonds.

The drive to increase returns from Social Security reserves stems as much from demographic pressures as financial ones.

"The essential problem of Social Security is that the rate of growth of benefits far outstrips the taxes available to pay for them," said Eugene Steuerle of the Urban Institute, author of two recent books on the subject.

"The demographics exacerbate the problem greatly. When the baby boomers retire and are replaced in the labor force by the baby bust population, there will be far fewer workers to support the large generation of retirees." Today there are 3.3 workers for each beneficiary; by 2030, there will be only two.

With more benefits but fewer workers to pay for them, many young people like Dan Morenoff, 21, of Bethesda, a Columbia University student, have lost confidence in Social Security. He says his generation will be hit with huge taxes to help support the big, politically powerful baby boom generation. Then, when his smaller generation retires, the nation simply will not generate enough in Social Security taxes to pay off all the high benefits promised to the much larger baby boom generation.

Given those dangers, Morenoff concludes, "I would feel more confident having a personal fund specifically for me in my own name," like an SSIRA.

Despite the promise of higher returns, privatization poses major hazards, according to critics.

The first is that there is no guarantee the stock market will do as well in the future as in the past. But Social Security is completely dependable, said Council member Edith Fierst: "Payments under Social Security have always been made, and on time."

Second, inexperienced investors might invest poorly, choosing too-risky stocks or sticking to safe but very-low-return savings accounts and Treasury bills. And there might be pressure to let people withdraw money early for education or homes.

Moreover, stocks yo-yo up and down. IBM in the late 1980s sold for $175, dropped to the $40s at one point and has been up as $128 in the past year.

Various privatization proposals would try to reduce the risks by barring people from investing their entire Social Security accounts in just one or two stocks. Another set of problems arises because the way the Social Security system was set up, contributions are not held in a separate account to fund individual retirement benefits, but rather all the contributions are put into a pool of reserves that are used for several purposes.

For one thing, the government now borrows Social Security reserves in order to pay for its deficit spending. If these reserves were invested directly in private securities, the government would have to borrow an equivalent amount of money on the private market to meet the deficit. This would take back from the private sector as much money potentially available for private investment as Social Security put in.

To overcome this problem, Washington would have to find a way to close the federal deficit, that much-promised but never-achieved goal requiring large-scale tax increases or spending cuts or both.

In addition, the current system operates on a pay-as-you-go basis, ing that current contributions go to pay current benefits to those a retired. If a lot of that money g into private Social Security accounts where it is held for the contributor's retirement, it is not available to pay current benefits. To make up for the money diverted to private accounts Schieber's plan envisions a 1 percent national sales tax for 75 years.

FOR MORE INFORMATION

To read where the presidential candidates stand on the battle over Medicare and the privatization of Social Security go to ElectionLine, The Post's politics site on the World Wide Web, at http//www.electionline.com.

THE WASHINGTON POST
TUESDAY, APRIL 9, 1996

THE WASHINGTON POST
TUESDAY, APRIL 9, 1996

Rostenkowski Plea Deal Is Outlined

Ex-Lawmaker Would Admit 2 Counts, Get 17-Month Term, Source Says

By Toni Locy
Washington Post Staff Writer

Former representative Dan Rostenkowski (D-Ill.) has agreed to plead guilty to two federal corruption charges in return for a 17-month prison sentence and a $100,000 fine, according to a source close to the case.

Rostenkowski, 68, who was chairman of the powerful House Ways and Means Committee, could make his guilty plea to two felonies as early as today, if he does not change his mind, something he has done repeatedly in the past few months. Official acceptance of the deal would require him to admit his guilt before a federal judge.

"The betting is 55-45 that, yeah, he'll plead," said the source, who asked not to be identified, explaining that "one day he's on board, the next day he's changed his mind."

Rostenkowski is scheduled to go on trial May 15 on charges that he engaged in a pattern of corrupt activities that spanned three decades. He is accused of misusing the House Post Office and the House Stationery Store to his own benefit, and of converting more than $600,000 in federal funds and $50,000 in campaign funds to personal use.

DAN ROSTENKOWSKI
. . . plea could occur today

His lawyer, Dan K. Webb of Chicago, declined to comment through his secretary.

The deal the former congressman now has with prosecutors in U.S. Attorney Eric H. Holder Jr.'s office involves substantially more prison time than a plea bargain that lawyer Robert S. Bennett hammered out for Rostenkowski before his May 1994 indictment. That deal, according to sources, called for Rostenkowski to serve only about six months in prison. Rostenkowski, vowing to fight the charges, fired Bennett not long after that.

For much of the past two years, the case has been mired in highly technical legal arguments and appeals. Heady constitutional issues revolving around separation of powers and the judiciary's ability to interpret congressional rules were taken to the U.S. Court of Appeals for the D.C. Circuit—and decided in prosecutors' favor, for the most part.

Last month, U.S. District Judge Norma Holloway Johnson dismissed four charges against Rostenkowski, leaving intact 13 of the original counts in the indictment that led to the longtime congressman's defeat at the hands of a political novice in November 1994.

There was concern that the case might be delayed by more appeals, depending on how Johnson handled other complicated, residual legal issues. At one point, she even asked attorneys for both sides to give her their versions of how they thought the indictment should read.

TOTAL NUMBER OF CHILDREN SERVED BY SOCIAL SECURITY

(Excluding SSI Disabled Children)

TOTAL NUMBER OF OASDI CHILD BENEFICIARIES	3,660,530
Total Under 18	2,892,200
Total Disabled Adult Children (DACs)	676,360
Total Students 18-19	91,970
CHILDREN OF RETIRED WORKERS	444,660
Under 18	242,120
DACs	187,630
Students 18-19	10,910
CHILD SURVIVORS	1,864,570
Under 18	1,373,340
DACs	440,080
Students 18-19	51,150
CHILDREN OF DISABLED WORKERS (DI)	1,355,300
Under 18	1,276,740
DACs	48,650
Students	29,910

-natural
-adopted
-step
-grand
(child has to be rec'g ½ of support from g'parents) + legal custody

Source: Table SA1, *1995 Annual Statistical Supplement*, pgs. 202-204

DAC → got on before age 22

<18

rk Times

New York: Today, ending clearing, windy elsewhere. High 35. Tonight, clouds. Low 27. Tomorrow, flurries, windy. High 33. Yesterday, high 30, low 22. Details are on page 29.

'UARY 17, 1996 ...e greater New York metropolitan area. 60 CENTS

Collision Near Washington

Associated Press

:k train that collided with a local train in Silver Spring, Md.

: Derailment s 13 Injured Cars Burn

ngineer, who was at the e front of the first pas- survived the collision engine Amtrak train. ils said three or four rs had been burned out. of the Montgomery nd Rescue Department rs had been burned so was impossible to tell ey belonged to. "It's a here," he said. uter train had left d., at 4:30, an hour and fore the crash.

"I heard a loud bang," said Peter Feeney, a senior at Catholic University in Washington who was getting off a Metro subway train at the station in Silver Spring, Md. He said the Metro train he had been on had been running neck and neck with the Amtrak train on parallel tracks before the Metro train pulled into the station.

"Immediately, the whole sky filled with smoke," Mr. Feeney said.

Brian Wasson, who was in his sixth-floor apartment nearby, said the building shook and he saw flames shooting toward the sky. The flames died down quickly, he said, but thick smoke billowed from the two trains for some time.

Investigators from the National Transportation Safety Board and officials from the Federal Railroad

Continued on Page 6, Column 1

PLAN TO PUT PART OF SOCIAL SECURITY INTO STOCK FUNDS

GOAL IS HIGHER RETURNS

Presidential Panel Is Ready to Call for Major Changes in Managing Pensions

By ROBERT PEAR

WASHINGTON, Feb. 16 — A Federal advisory panel appointed by the Clinton Administration plans to recommend a radical change in policy for Social Security: investing billions of dollars of payroll contributions in the stock market.

The panel, whose proposed recommendations appear in a confidential draft of a report to be issued this spring, is also discussing whether payroll tax revenue for Social Security should be kept in one big pool, as it is now, or whether some should be diverted to individual accounts, so workers could invest it in stocks and bonds of their choosing.

Such discussions would have been unthinkable just a few years ago. Politicians have been extremely reluctant to change Social Security because any misstep could provoke explosive reactions from the program's 43 million beneficiaries.

But this year the issue has surfaced in political debates. It provoked a bitter exchange last month between two candidates for the Republican Presidential nomination, Steve Forbes and Senator Bob Dole. When Mr. Forbes suggested that a portion of younger workers' payroll taxes go into private retirement accounts, Mr. Dole ran television advertisements denouncing the idea as "a radical untested plan that would end Social Security as we know it." But since then, Mr. Dole himself has expressed interest in the idea.

Gene B. Sperling, deputy assistant to President Clinton for economic policy, said tonight that the Administration had opposed efforts to "privatize Social Security," but would review the recommendations.

Since the creation of Social Security in 1935, money paid into the program has been invested exclusively in interest-bearing Government securities, mainly long-term bonds. But the 13-member advisory panel says in its draft report that the United States could obtain a higher return on investment and increase retirement savings for the baby-boom generation by channeling some of the money into the stock market.

"Stocks have outperformed bonds by a significant margin over long periods of time," said Edward M. Gramlich, professor of economics and dean of the School of Public Policy at the University of Michigan, who is chairman of the panel, the Advisory Council on Social Security.

The draft says that, while stock market investments would entail "a

Victor in G.O.P. Debate

npressed

gathered on Thursday tel room here at the he New York Times to bate. All said they in- in the primary. Most ed when the debate v leaned toward one another. Ninety min- ey pronounced them- hly unimpressed. usson, 27, a preschool nchester, said shyly,

Buchanan, Beset by Many Critics, Still Unbowed

By JAMES BENNET

MANCHESTER, N.H., Feb. 16 — Patrick J. Buchanan's toughest opponent in the Republican Presidential campaign here in New Hampshire may well be himself. Columns, comments and associates past seem to be rising against him.

Even in his own element, talk ra-

Ed Bickham of the Montgomery County Fire and Rescue Department said some cars had been burned so badly that it was impossible to tell which train they belonged to. "It's a real mess in there," he said.

The commuter train had left Brunswick, Md., at 4:30, an hour and 15 minutes before the crash.

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Continued on Page 6, Column 1

ton as Victor in G.O.P. Debate

vers Unimpressed

APPLE Jr.

pendents, who gathered on Thursday night in a hotel room here at the invitation of The New York Times to watch the debate. All said they intended to vote in the primary. Most were undecided when the debate started; a few leaned toward one candidate or another. Ninety minutes later, they pronounced themselves thoroughly unimpressed.

Stephanie Cusson, 27, a preschool teacher in Manchester, said shyly, "Tonight is the first time I've opened myself up to this campaign." But she had at least one firm conclusion: "It bothers me that they don't really answer direct questions about legitimate issues, like welfare abuse, which I see lot of in my job, and family values."

James Cook, 30, who manages a ski shop at Thornton, in the shadow of the White Mountains, asserted

Continued on Page 8, Column 1

Librado Romero/The New York Times

falls, that disrupted end-of-the-week top poster on 56th Street. Page 25.

Buchanan, Beset by Many Critics, Still Unbowed

By JAMES BENNET

MANCHESTER, N.H., Feb. 16 — Patrick J. Buchanan's toughest opponent in the Republican Presidential campaign here in New Hampshire may well be himself. Columns, comments and associates past seem to be rising against him.

Even in his own element, talk radio, Mr. Buchanan found himself today fighting off longstanding accusations of racism, anti-Semitism and fascism.

"These are the cuss words of a dying establishment," he said during a radio interview here, trying to turn those accusations into proof of his fearlessness in risking the anger of the powers that be with his tough talk on trade and domestic policy.

But the questions kept coming, as they have throughout Mr. Buchanan's career as White House speechwriter, columnist, television commentator and two-time Republican Presidential candidate. Where his friends and supporters see courageous politics and prose, critics have long found code words intended to excite a fear of foreigners, Jews, homosexuals and blacks.

Mr. Buchanan has a political gift for crystallizing complex policy muddles over issues like trade into sharp-edged debates. But in his blazing rhetoric, he has a habit of questioning not only his opponents' judgment but also their patriotism.

In a debate here on Thursday night, for example, he turned a plain-spoken explanation of his trade position into an attack on Senator Bob Dole for supporting the North

Continued on Page 9, Column 1

vertisements denouncing the idea as "a radical untested plan that would end Social Security as we know it." But since then, Mr. Dole himself has expressed interest in the idea.

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"Stocks have outperformed bonds by a significant margin over long periods of time," said Edward M. Gramlich, professor of economics and dean of the School of Public Policy at the University of Michigan, who is chairman of the panel, the Advisory Council on Social Security.

The draft says that, while stock market investments would entail "a slight increase" in risk for Social Security, the risk is manageable.

The advisory council, appointed in June 1994 by Donna E. Shalala, the Secretary of Health and Human Services, includes business executives, labor union leaders and pension experts chosen to represent self-employed workers and consumers in general.

Panel members have significant

Continued on Page 10, Column 4

INSIDE

Stocks Retreat From Rally

Blue-chip stocks pulled back sharply, hurt by a slump in bonds and by fears that stocks may have risen too far, too quickly. Since Wednesday, the Dow Jones industrial average has lost 97.91 points. Page 35.

Fare Up, Riders Down

New York City's subway ridership in 1995 reached its highest level in 21 years, the Transit Authority reported, but then began a sharp decline after fares were increased in November. Page 25.

Publisher Faces Protest

A decision by Cambridge University Press not to publish a provocative study of ethnicity in the northern Greek province of Macedonia has raised a storm of protest among academics over the Internet. Page 3.

For Computer, a Bad Day

Gary Kasparov, the world chess champion, offered the Deep Blue computer a draw. The offer was rejected, and Kasparov won. Page 7.

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is why, she said, the United States Holocaust Memorial Museum, which in April on the Washington Mall, is impo

After reading through the league's report yesterday, Dr. Lipstadt said there were incidents included in it that she might not have counted had she been the one compiling it, such as, someone shouting an anti-Semitic slur from a passing car.

Similarly, she said, she would not have counted the hate mail that she has received since the publication of her book describing the work of organizations that claim there was no Holocaust.

"If I had sent in the 50 letters I got over the past year, I would have skewed the whole graph," she said, referring to the league's annual charting of incidents.

But in other incidents cited by the league, Dr. Lipstadt said, she found plenty of the disturbing evidence of the trend toward greater acceptance of intolerance that Mr. Foxman addressed.

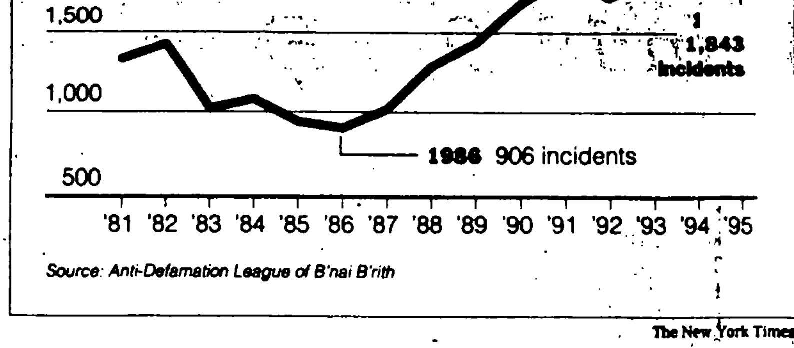
She cited the publication of anti-Semitic comments in college newspapers, especially a column in a Columbia University student paper maintaining that Jews preyed upon the black community. The column caused an uproar on that campus in October.

"Hate and prejudice and violent animus is presented as a point of view for the reader to consider," she said. "People in leadership positions have to stand up and say these are not points of view, these are not opinions to be considered. This is plain, old hatred."

Mr. Foxman offered a similar recommendation for responding to the wider world of bigotry.

"What public officials can do is to use their bully pulpit at any time an incident of hate violence or anti-Semitic violence appears," he said. And not just the politicians, he added, but anyone.

"The overwhelming majority are good people," he said, "and they can fight by raising their voice and saying, No, we won't tolerate it."



Source: Anti-Defamation League of B'nai B'rith

The New York Times

Panel to Urge Policy Change in Social Security

Continued From Page 1

disagreements on such questions as: How much Social Security revenue should be invested in stocks? Who would manage the investments? How many private investment options should be allowed?

At least 8 of the 13 panel members say the money should be invested in mutual funds or some other portfolio of securities linked to a broad gauge of market performance, like the Standard & Poor's index of 500 stocks.

"Very few investment managers can beat the index year after year," said Marc M. Twinney Jr., a council member and actuary who was pension director of the Ford Motor Company until he retired last year.

The Social Security trust fund now takes in more money in taxes and interest than it pays out in benefits. But Federal officials say the program will not be able to pay all the benefits earned by members of the baby-boom generation because, under the latest estimates, the trust fund will be depleted in 2030.

Robert M. Ball, a Democrat who was Commissioner of Social Security from 1962 to 1973 and is a member of the advisory council, said today: "Some of the trust fund money should be put into the stock market. I want to do it to get a better return for the Social Security system. Historically, long-term Government bonds have had a real return, after inflation, of 2.3 percent a year, compared with 6.3 percent for stocks."

Under the approach favored by Mr. Ball, up to 40 percent of the money in the Social Security trust fund would eventually be invested by the Government in a broad selection of private stocks intended to mirror the overall performance of the market.

Some critics say Mr. Ball's proposal would concentrate too much power in the hands of the Government, giving Federal officials leverage over private companies. But Mr. Ball said he would prohibit the manipulation of investments for political purposes and would require the Government's money managers to purchase the same mix of securities as used in a standard index of the market.

Mr. Ball's proposal, supported by five other council members, would keep the level of Social Security benefits envisioned in current law. It would not change payroll taxes for workers, but would increase income taxes on benefits for some retirees.

Other members of the council want to create an investment account for each person covered by Social Security.

Under the approach favored by Mr. Gramlich, the Government would require each worker to contribute a small amount each year beyond their current level of payroll taxes. "The accounts would be held by the Social Security system, but individuals would be free to choose whether to invest their accounts in stock index funds, bond index funds or some combination," he said. People would have perhaps 5 to 10 investment options, he added.

When a person retires, Mr. Gramlich said money accumulated in the ple making identical contributions could end up with very different benefits.

Economists disagree on how stock markets might be affected by the infusion of huge amounts of money. The financial services industry would presumably benefit, but banks, mutual funds and insurance companies have just begun to study the issue.

To improve the financial condition of Social Security, Mr. Gramlich would slightly scale back retirement benefits for high-wage workers and would gradually increase the age of eligibility for full benefits.

Still other members of the council want to give workers even more control over the investment of their retirement money. Under this approach, Social Security would pay a modest flat benefit, about half of the average benefit now paid to retirees, and 40 percent of payroll taxes would be diverted to "personal security accounts."

A panel member who favors this approach, Sylvester J. Schieber, said: "Our proposal would give people the widest choice of investment options. People could invest their Social Security money as they invest the money in their individual retirement accounts. Beyond the floor of protection provided by Social Security, we should let people participate fully in this economic miracle that we call America. It's paternalistic to assume that people cannot take action in their own self-interest."

Stock investments are seen as a way to increase returns.

Mr. Schieber is research director at Watson Wyatt Worldwide, a management consulting concern that specializes in employee benefits.

Edith U. Fierst, a lawyer who serves on the council, criticized Mr. Schieber's proposal, saying: "It could be disastrous for women, especially nonworking women, because they would have no entitlement to income from the personal savings accounts of their husbands. This would be a particular problem for women who divorce or outlive their husbands."

In its draft report, the council pleads for early action to revise and supplement Social Security ...

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When a person retires, Mr. Gramlich said, money accumulated in the account would be paid out in the form of an annuity, supplementing regular Social Security benefits.

Mr. Gramlich said individual accounts would give people an enhanced "sense of ownership" in Social Security, increasing confidence in the program. "At present," he said, "the system seems like a black box to most workers."

The creation of such individual accounts would fundamentally change the nature of Social Security. Some benefits would still be guaranteed, but the remainder would depend on personal investment decisions and the performance of the market. Peo-

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In its draft report, the council pleads for early action to revise and supplement Social Security. "Actions taken now to cut benefits or raise taxes can generate revenues right away, these revenues can be invested in equities right away and these investments can raise benefits for younger workers," it says. "The younger the worker, the more there is to be gained from early action."

The council supports the current practice of automatically increasing Social Security benefits to keep pace with inflation. It rejects any suggestion that retirees with large amounts of other income forgo their Social Security benefits. Such a "means test" would discourage savings as people approach retirement, it says.

Alabama Executes Killer for Crime in '77

ATMORE, Ala., Feb. 16 (AP) — A man was executed in the electric chair early today for helping to abduct, sexually assault and kill a teen-age girl 19 years ago.

An appeal by the condemned man, Edward Dean Horsley, was rejected on Thursday by the Supreme Court.

Mr. Horsley, 38, was sentenced to die for the March 1977 murder of Naomi Rolon of Hudson, N.C., who was 17. He and Brian Keith Baldwin escaped from a prison camp and abducted Miss Rolon, according to court records. The men sexually assaulted, choked and stabbed Miss Rolon. They were arrested a short time later.

Mr. Horsley's execution had been delayed by three rounds of appeals, including claims that his trial had been unfair because the jury had been composed entirely of whites. Mr. Horsley and Mr. Baldwin are black; Miss Rolon was white.

Mr. Baldwin has also been sentenced to death, but no execution date has been set.