Committee on Ways and Means

Subcommittee on Social Security

The Growing Real Ownership for Workers Act of 2005
Summary

Creation of Personal Accounts

- Personal accounts, called "GROW" accounts, would be established for all workers under the age of 55 at the beginning of 2005, unless they choose not to have an account.

- An independent board would be appointed to manage and administer GROW accounts. The board would have seven members serving staggered, four-year terms.

Dedication of Social Security Surplus to GROW Accounts

- Each year, surplus Social Security taxes would continue to be credited to the Social Security Trust Funds (as under current law), thus holding the trust funds harmless.

- After crediting to the trust funds, the surplus would be distributed to workers' accounts. Annual account contributions would equal a flat percentage of workers' earnings subject to the payroll tax.

    - For example, if the surplus equals 2 percent of the taxable earnings of all account owners, then each account owner would receive a contribution equal to 2 percent of his or her taxable earnings.

- Account contributions would be automatically invested in a marketable, U.S. Treasury bond fund. These investments are backed by the full faith and credit of the U.S. government.

- At the beginning of 2009, the board would submit a plan to Congress to offer workers other investment options. The board's plan would also include recommendations regarding account distributions (such as other forms of annuities in addition to lifetime, inflation-indexed annuities provided by the Board, or annuities provided through the private sector). The plan would go into effect automatically, unless Congress disapproved it.

Use of Account Balances to Pay Social Security Benefits

- The goal of the proposal is to ensure that Social Security surpluses are only used for Social Security. As a result, account balances would be used to help pay Social Security benefits.

- Upon retirement, the individual would receive a benefit from his or her account and a benefit from the Social Security Trust Funds. The benefit from each source is determined as follows:

    - The board would calculate the monthly, inflation-adjusted lifetime payment that could be provided from the account at retirement had it been invested in the Treasury bond fund. If the individual is married, this calculation would include a monthly payment to the surviving spouse. This lifetime monthly payment represents the portion of the individual's Social Security benefit that is paid from the account.

    - The rest of the individual's benefit would be paid from the Social Security Trust Funds.

  This calculation ensures that an individual who remains invested in the Treasury bond fund will receive a combined benefit from the GROW account and the trust funds equaling the full Social Security benefit payable under current law at the time of his or her retirement. For individuals who choose to diversify their investments, they will receive the full Social Security benefit payable under current law to the extent their investments perform at least as well as the Treasury bond fund.

- Retirees would be required to annuitize enough of the account balance to ensure a total Social Security benefit of at least 100 percent of the poverty level. Any remaining account balance could be withdrawn as the retiree chooses.

- No distributions would be permitted before the individual collects Social Security retirement benefits.

Inheritability

- Upon death of an account owner, assets in the account would be transferred to the account of an eligible spouse and used to help pay widow(er)'s Social Security benefits. If there is no surviving spouse, the account would be transferred to the worker's other heirs.