



Highlights of [GAO-03-309](#), a report to the Ranking Minority Member of the Senate Special Committee on Aging

Why GAO Did This Study

Many proposals have been offered to restructure the U.S. Social Security system to include individual retirement savings accounts. However, some key proposals would make participation in the accounts voluntary rather than mandatory. While any individual account plan can offer a variety of choices regarding contributions, investments, and withdrawals, the choice of whether or not to participate is fundamental to a voluntary approach. That choice could have significant effects on individual retirement incomes and on the costs to the government as well.

GAO was asked to report on the implications of using a voluntary approach to individual accounts. Accordingly, GAO's reporting on (1) how voluntary plans can affect individuals, (2) how they could affect the total costs of the retirement system, and (3) the role of educational efforts relating to the participation decision. Throughout this report, GAO focuses on the issues that pertain specifically to a voluntary approach as distinct from a mandatory approach.

GAO studied three countries that have enacted voluntary individual account plans—the Czech Republic, Germany, and the United Kingdom.

www.gao.gov/cgi-bin/getrpt?GAO-03-309.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Barbara D. Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

SOCIAL SECURITY REFORM

Information on Using a Voluntary Approach to Individual Accounts

What GAO Found

If policymakers decide to restructure Social Security to include individual accounts, making participation voluntary has significant implications for designing and administering the plan. While offering the choice to participate may be desirable, doing so substantially increases the complexity of an individual account plan and potentially its total costs. A variety of voluntary plan design features have potentially significant effects on individuals and total system costs.

The design features of voluntary individual account plans can affect whether individuals participate in the accounts and what retirement incomes they will receive. For example, some voluntary plans, such as those in the three countries we studied—the United Kingdom, the Czech Republic, and Germany, offer people the ability to opt in and opt out of the account periodically. Individuals may consider the extent of such flexibility in deciding whether to participate in the accounts. Also, voluntary plans generally offer incentives to participate, while mandatory plans do not need them. In addition to increasing participation, incentives generally add to the value of the accounts and, therefore, ultimately to the retirement income the accounts will provide. The three countries we studied offered incentives such as government contributions and tax advantages.

Voluntary individual account plans can also affect the total system costs to the government, providers, employers, or participants, depending on design. In some cases, offering choice involves additional administrative, incentive, and educational costs related to individuals' participation decisions. In particular, tracking individuals' participation decisions would require administrative processes that do not arise in mandatory plans. All three countries we studied used a centralized government authority to track participation and handle account contributions. Moreover, the uncertainty of participation rates in turn creates uncertainty for a variety of costs associated with individual account plans. For example, in the United Kingdom, participation in the individual accounts was much greater than expected, which resulted in unexpectedly high incentive costs. In addition, costs would arise from the need to educate individuals to help them make informed decisions about participating in voluntary accounts.

Significant education efforts may help individuals make informed participation decisions. Individuals face complex participation decisions in addition to the contribution, investment, and withdrawal decisions they might face in a mandatory plan. To make informed participation decisions, individuals need to understand the effects on their government retirement, disability, and survivor benefits and on their retirement income as a whole.