The Social Security Guarantee Plus Act of 2003
H.R. 75

Information Packet

Introduced by:
E. Clay Shaw, Jr., Chairman
Ways and Means Subcommittee on Social Security

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Floor Statement
Introduction of the Social Security Guarantee Plus Act of 2003
January 7, 2003

Whether we live in prosperous or uncertain times, American families need economic security-- the kind of economic security that Social Security provides. For 68 years, Social Security has protected workers and their families from falling into poverty if a breadwinner retires, suffers disability, or dies. Social Security has endured, unlike many other government programs, because its architects designed it to be owned by workers and to treat all workers fairly.

Social Security has evolved over the decades, strengthening its protections and finances along the way. However, our nation's demographics and economics are fundamentally changing, and Social Security's ability to continue meeting its promises is threatened. The Social Security Guarantee Plus Plan I am introducing today will enable Social Security to continue fulfilling its vital role in the lives of all Americans.

First, the Guarantee Plus Plan keeps intact the Social Security safety net. Promised benefits, including cost of living increases, are guaranteed for people receiving benefits today, tomorrow and for all future generations.

Second, the plan treats all workers fairly. Workers have paid into the system, it's their money, and we must protect and enhance their investment. It's not fair to workers to raise their payroll taxes or lower their benefits. Nor is it fair for the government to tell workers to work longer. That's why my plan does not raise taxes, does not lower benefits, and does not change the retirement age.

Third, Social Security payroll taxes belong to the workers who paid them. My plan gives workers a real ownership stake in Social Security by allowing them to choose to receive a tax cut to invest directly in prudent, individually-selected, market investments. For the first time, a nation of savers, not the government, will own and control the assets backing Social Security. Should an individual die before becoming eligible, the balance of their money will be passed along to their heirs.

Fourth, under my plan, Social Security can be counted on for the next 75 years, and beyond. Real assets guarantee current and future benefits, establishing a sound and sustainable financial footing. No longer will there be a need to periodically increase taxes or lower benefits to keep the program working.

Beyond keeping these promises to all Americans, we must also do more to improve Social Security for the women of our nation. Because of their longer life expectancies and lower earnings, women are more likely to suffer poverty in old age. Social Security is a vital safety net for these women. In addition, because benefits are based on earnings, women are disadvantaged when they choose to stay home to raise their children. The Guarantee Plus Plan protects our daughters, our mothers, our aunts and our grandmothers, not only by securing the future of Social Security and guaranteeing full benefits, but also by enhancing benefits for widows, divorced spouses, and working mothers. These benefits become available immediately in my bill.

Here's how the Social Security Guarantee Plus Plan works. The plan guarantees full, promised, current law benefits for all workers, whether you are 6 or 65. Just as companies must back your pension plan with real assets, the Guarantee Plus Plan saves Social Security by setting aside real assets, not IOUs, to pre-fund benefits. These assets are saved in each worker's own account, thereby providing workers the opportunity to create real wealth for themselves and their families.

Workers who choose to participate will receive a refundable credit of up to 4% of their earnings to establish their own Social Security Guarantee Account. Workers, not the government, would select where to invest their Guarantee Account funds. The assets in these accounts would grow tax-free. No withdrawals would be permitted until a worker starts receiving benefits to ensure that the money is preserved for retirement.

At retirement or when the worker becomes disabled, a portion of the Guarantee Account is paid directly to the worker and the rest is used to help pay full, guaranteed Social Security benefits. But that's not all.

In addition to the much needed improvements in benefits for women I mentioned, my plan eliminates the retirement earnings penalty for all workers age 62 and older and reduces the so-called Government Pension Offset affecting spouse and survivor benefits to certain government workers.

Other plans may cost less, because they cut benefits or raise taxes. If our goal is to pay full promised benefits, boost women's benefits, and return Social Security to financial independence, the Guarantee Plus Plan is the lowest-cost proposal to date. The Guarantee Plus Plan does all this and pays for itself over the seventy five-year actuarial period, and that's confirmed by the Social Security Administration's Office of the Actuary. Even under the most conservative estimates, the Guarantee Plus Plan allows the new Social Security system to generate surplus cash in the latter part of the century, actually adding black ink to the government's bottom line.

My plan uses general revenues to fund the accounts. Even assuming borrowing for a transitional period, my plan pays back every borrowed dollar plus interest within the seventy five-year evaluation period. Not only would we pay off the mortgage on Social Security, we would leave workers with substantial account balances and the federal government with excess cash.

The Guarantee Plus Plan also meets or exceeds all of the President's principles for reform-- pays promised benefits to retirees, near-retirees, and all workers; no tax increases; no government investing; fully preserves disability and survivor benefits; offers individually controlled, voluntary personal retirement accounts that will augment Social Security. In addition, my plan is consistent with the first option to establish personal accounts recommended by the President's Commission to Strengthen Social Security. My plan also accomplishes the objectives agreed to by the House during the 107^{th} Congress to guarantee current law promised benefits, with cost-of-living-adjustments to current and future retirees, without increasing taxes.

This past November, we witnessed yet another election cycle featuring Social Security as a key issue. Once again, Americans showed their willingness to explore new ideas to strengthen this vital program, since the old ways must be improved upon for future generations. Once again candidates who took a stand on ways to save Social Security not only held their own, they won. Yet, once again, not one penny has been invested in saving our nation's most successful retirement program. The result—while politicians debate, the price tag for saving Social Security only goes up and up.

From the time of Social Security's enactment until today, the history of the program's evolution has demonstrated that while everybody has his or her own ideas on how to strengthen the program, progress toward that goal is only achieved through bipartisan cooperation. It's long past time for us to lay all our best thoughts on the table and work together to build on our success to make a stronger Social Security system that is an asset to all and not a liability to our children and grandchildren.

The Social Security Guarantee Plus Plan

Why Social Security Must Be Strengthened

Social Security can't cope with the upcoming demographic changes facing our country.

People are living longer and families are having fewer children. That means the number of workers supporting each retiree will continue to fall. In 1945 there were over 40 workers for every retiree; in 1960 there were 5 workers, and within a generation there will be only about 2 workers for each retiree. Without changes to the system, Social Security will be unable to bear the burden of the demographic challenges as fewer and fewer workers pay into the system to finance the benefits of retirees.

The President's Commission and Social Security Trustees from both Republican and Democrat Administrations agree-- cash flow deficits start in approximately the next fifteen years.

The 2004 annual report of the Social Security and Medicare Board of Trustees, and the 2000 Trustees report (whose trustees included the Clinton Administration's Treasury and Labor Secretaries plus the Commissioner of Social Security) concluded precisely the same thing as the President's Commission—that in approximately fifteen years (2018 according to the 2004 Trustees report) the system will face growing cash shortfalls.

In 2042 the trust funds are projected to be completely exhausted, and the system will only be able to pay 73% of promised Social Security benefits, with even less of promised benefits payable in subsequent years.

Without reform, we would need benefit cuts, tax hikes, increased borrowing, or cuts to other government programs.

Between 2018 and 2042, government bonds credited to the trust funds will keep the system going. These bonds will be honored, but only by increasing federal debt, cutting other spending, or raising taxes, in the absence of budget surpluses. In 2018 the cash shortfall is projected to be about $16 billion, and by 2042 is projected to be about $376 billion (in today's dollars).

- If we rely on tax increases to fund the current system after the trust funds are exhausted, in 2042 the payroll tax rate would need to increase from 12.4% to about 16.9% – and would increase even more to 18.3% by 2078. That would mean an increase in payroll taxes of 36% by 2042 and an increase of nearly 50% by 2078.

- If we rely on benefit cuts to address the cash shortfall, benefits would need to be cut by over one-fourth in 2042, increasing to nearly a one-third reduction in 2078.

The Social Security system is unfair to today's workers who already can expect only a low rate of return on their contributions. This rate of return is only expected to fall further in the future if we do nothing and there are no changes to the current system.

Inaction is Social Security's greatest enemy.

The longer action is delayed, the more the cost and the risk to Social Security increases.

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The Social Security Guarantee Plus Plan

Keeping Social Security's Promise

1. Preserves and Guarantees the Social Security Safety Net
   - Fully preserves and guarantees Social Security benefits for life.
   - Fully preserves and guarantees cost-of-living adjustments.
   - Fully preserves and guarantees survivor and disability benefits.
   - No exposure to individual investment risk.

2. Treats All Workers Fairly
   - No tax increases.
   - No increase in retirement age.
   - No unfair burden on young and future workers.
   - Eliminates the senior work penalty, helping seniors who want or need to work.

3. Worker Ownership
   - Workers voluntarily elect an annual refundable income tax credit equal to 4% of wages up to $1,000, to be deposited in their own Guarantee Account.
   - Workers - not the government - choose where to invest their retirement savings.
   - Accounts may pass tax-free to the heirs of workers who die before retirement - creating real wealth for many for the first time.

4. Saves Social Security for 75 years and Beyond
   - The Actuaries of the Social Security Administration confirm the plan saves Social Security beyond current law (2042) and beyond 75 years.
   - Updates Depression-era pay-as-you-go financing structure to reflect today's aging population, thereby placing Social Security on a sustainable path so there are no more threats of future tax hikes or benefit cuts every few years.
   - Creates a saving plan within Social Security to pay future benefits.
   - Real assets back benefits, not IOUs.
   - Pays for itself and improves the government's bottom line in the long run.

5. Enhances Benefits for Women
   - Increases widows' benefits.
   - Expands eligibility for widows with disabilities and for divorced spouses.
   - Helps eliminate the homemaker penalty experienced by women who choose to stay at home to take care of their children.
   - Lessens benefit reductions applied to spouses who work for certain state and local government jobs not covered by Social Security.

6. Consistent with the President's Principles, the President's Commission, and House Vote
   - President – Guarantees promised benefits to retirees, near-retirees, and all workers; no tax increases; no government investing; fully preserves disability and survivor benefits; offers individually controlled, voluntary personal retirement accounts that will augment Social Security.
   - President's Commission to Strengthen Social Security – Consistent with the Commission's first option to establish voluntary accounts.
   - House – Guarantees current law promised benefits, with cost-of-living-adjustments to current and future retirees, improves benefits for women, provides minorities and others the opportunity to build wealth, all without increasing taxes (107th Congress - H. Con. Res. 282).

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The Social Security Guarantee Plus Plan

How the Guarantee Plus Plan Works

The *Social Security Guarantee Plus* plan saves Social Security by updating the Depression-era pay-as-you-go financing system. Rather than just taxing workers more and more to meet benefit commitments, the Guarantee Plus Plan gives workers the opportunity to save money today to ensure payment of full promised benefits tomorrow without increasing payroll taxes.

When benefits are funded in advance and take advantage of the better rates of return available in the equity and bond markets, less in taxes is needed to pay full benefits and the program's cash shortfall is eliminated, thus saving Social Security. For the first time ever, real assets will back benefits, instead of government IOUs that simply represent claims on future taxpayers.

1) Each year (starting with 2003), workers who pay Social Security payroll taxes will receive a refundable tax credit equaling 4% of wages up to a cap of $1,000 (in 2003), with the cap indexed to annual increases in wage growth. The tax credit is automatically deposited into the worker's account.

Real Life Example

Juan earns $35,000 in 2002. Juan gets $1,000 deposited into his account.

2) Workers will have a choice of qualified asset managers to invest their accounts. The investments would be required to meet safety and soundness standards. A Social Security Guarantee Board, composed of 6 members appointed by the Board of Trustees and similar to the Federal Retirement Thrift Savings Board, will establish regulations for investment policies.

3) Workers will have a choice of three investment mixes for their contributions-- 60/40, 65/35, or a 70/30 mix of equity index funds and high-grade corporate bonds. A nationwide education campaign will be launched to help workers learn about their options before they make a selection. Workers who elect to participate in a Guarantee Account but do not choose an investment option will be automatically placed in a standard investment option. Workers will be able to change their asset manager each year. Account earnings accrue tax-free. Accounts cannot be accessed for any reason prior to retirement or disability.

Real Life Example

Juan chooses to invest his account in a qualified mutual fund at ABC Mutual Fund. He can change his selection once each year.

4) Once a worker begins receiving retirement, disability or survivor benefits, the worker will receive 5% of the account balance to take as a lump sum. Social Security will calculate a monthly payout from the account based on the remaining account balance. The calculation accounts for expected future inflation, earnings on the account, and survivor benefits. Men and women are treated equally, even though women tend to live longer on average. Workers will receive the higher of their promised Social Security benefit or the payout based on the account. Nobody receives a benefit cut, regardless of how the account performs.

Real Life Example

Juan chooses to retire at age 62 in 2045. His account balance is $149,801 (in 2002 dollars). He receives $7,490 as a lump sum when he retires at age 62. Juan will receive $1,357 each month from Social Security, his full benefit promised under current law. His account will pay $932 (in 2002 dollars) into the Social Security trust funds each month to ensure that he and all workers receive full promised benefits.

Workers are guaranteed the higher of the current-law Social Security benefit or the annuity based on the account. Nobody receives a benefit cut, regardless of how the account performs.

5) Every month, the beneficiary will receive a single check from the Social Security Administration. Every month, the payout from the account will be transferred to the trust funds to help pay benefits. Even if the account is depleted while the individual is still collecting benefits, he or she will still continue receiving the full Social Security benefit. If the payout from the account is higher than the individual's promised Social Security benefit, then he or she will receive the higher amount for life.

- Workers who die before collecting benefits may leave their accounts to their heirs tax-free.
- Workers who outlive their account balances continue to receive full benefits financed wholly from the trust funds.
- Workers who are not eligible for Social Security once they reach full retirement age will receive their account balance as a lump sum.
- Workers who choose not to collect Social Security may leave their accounts to their heirs tax-free.

The Social Security Guarantee Plus Plan

Increasing Protections for Today's Women

The Social Security Guarantee Plus Plan provides increased protection for women. It secures Social Security's finances, ensures full promised benefits and cost-of-living adjustments, and enhances benefits for widows, divorced spouses, and working mothers. Finally, the Guarantee Plus Plan strengthens Social Security without exposing women to individual market risk.

Women are heavily dependent on Social Security benefits during retirement, because they often have little or no pension savings or other sources of income. In 2000, Social Security provided the only source of income for over one-fourth of unmarried women age 65 and older.

Several features of the Social Security program are important to women: lifetime benefits, inflation protection, a progressive benefit formula, and family benefits. The Guarantee Plus Plan fully protects these features of Social Security, ensuring women will be financially secure during retirement.

In addition, the Guarantee Plus Plan improves benefits for women by increasing widows' benefits, providing credit for years spent out of the workforce caring for young children, and expanding eligibility for divorced spouses and disabled widows. These enhancements respond to trends in marriage, child-rearing, and labor force participation. Most importantly, they will help prevent more women from living in poverty in old age.

Benefit improvements in the Guarantee Plus Plan:

✓ **Widows** – For all new and current widow beneficiaries in 2004, increases widow(er)s' benefits from 100% of the deceased worker's benefit to 75% of the couple's benefit while both were alive, up to a maximum of the average retiree's full benefit amount, thereby increasing the widow(er) benefit of low-wage couples by as much as 50%.

✓ **For widows with disabilities** – For all new disabled widow beneficiaries in 2004, allows widows of any age with disabilities to qualify for benefits based on the deceased workers' earnings. This helps widow(er)s with disabilities who may have insufficient wages to qualify for disability benefits.

✓ **For divorced spouses** – For all new divorced spouse beneficiaries in 2004, divorced women would no longer need to wait two years to receive spouse benefits if their ex-spouse marries someone else.

✓ **For working women** – For all new and current beneficiaries in 2004, provides a child-care credit equaling 25% of the homemaker's previous wages for up to 5 years, if the worker is caring for a child age 6 or under. This helps improve the benefits of persons who take time out of the workforce to care for young children.

✓ **For certain State, Local, and Federal workers, including teachers** – For all new and current beneficiaries in 2004, reduces the Government Pension Offset (GPO) of spousal benefits from 2/3 to 1/3 of the pension from non-covered work. In December 2003, three-fourths of persons affected by GPO were women.

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Enhancing Widow's Protection

The Guarantee Plus Plan improves benefits for widows and enables more disabled widows to receive benefits. These provisions will help improve the economic security of elderly and disabled women. In addition, widows may inherit the Guarantee Account of their spouse, further increasing their financial security and retirement wealth.

Widows are one of the largest and most vulnerable groups among the elderly beneficiaries. In 2000, 15% of elderly widow beneficiaries were in poverty, compared to only 8.5% of all elderly beneficiaries. Widows and widowers with disabilities are especially vulnerable – their average monthly benefit was only $564 in December 2003, compared to $888 for aged widows and widowers and $862 for disabled workers.

The Guarantee Plus Plan increases benefits for widows.
Under Social Security today, widows receive benefits that are between 50% and 67% of the benefits the couple received when both were alive. The Guarantee Plus Plan would allow widows to receive either 75% of the couple's combined benefit before the worker died, or the average retired worker benefit, if lower. In no case would a widow receive less than under current law.

Real Life Example

Dorothy is married to Michael, and both are low-wage workers.* Both retire at age 62. Michael dies in 2004. Under current law, Dorothy would receive benefits of $624 per month (in 2002 dollars).

Under the Guarantee Plus Plan, Dorothy would receive $860 (in 2002 dollars) per month guaranteed, plus 5% of her account.

*A low-wage worker in 2003 is defined as somebody earning about $16,500 in annual wages.

Widows and widowers with disabilities receive additional benefit protections.
Under current law, a widow with a disability may receive benefits if she is age 50-59 and became disabled within 7 years of her spouse's death. The Guarantee Plus Plan expands this protection by allowing widows with disabilities of any age to receive benefits, regardless of when the spouse died.

Real Life Example

Janet and Joe are age 21 and married. Janet is a homemaker, and Joe was a high-wage worker who began to work in 2003.* When Joe dies at age 50, Janet begins working, but becomes disabled at age 58. Under current law, Janet is not eligible for disabled widow's benefits, because more than 7 years have elapsed since Joe died.

Under the Guarantee Plus Plan, Janet would receive the balance of $79,803 (in 2002 dollars) from Joe's Guarantee Account when he dies, and when she becomes disabled she would be eligible for a disabled widow's benefit of $1,661 a month (in 2002 dollars), guaranteed.

*A high-wage worker in 2003 is defined as somebody earning about $58,600 in annual wages.

Also, young widows who become disabled would be able to receive their widow's benefits earlier than age 50. The median family income for disabled beneficiaries under age 50 is about half the income of non-disabled workers. In addition, women who are not married and workers under age 40 have the highest poverty rates among the disabled. Around 36% of unmarried women who are receiving disability benefits are poor, and about one-half are poor or near-poor.

Real Life Example

Rosa and Kobe are age 21 and married. They began to work in 2003. Rosa, who earned low wages, becomes a widow at age 35 when her husband Kobe, a high-wage worker, dies. Five years later Rosa becomes disabled. Under current law she would not be eligible for a disabled widow's benefit, because she is under age 50. She could collect disabled worker benefits based on her own wages of $843 per month (in 2002 dollars).

Under the Guarantee Plus Plan, she would be entitled to a disabled widow's benefit of $1,341 (in 2002 dollars) each month based on Kobe's work record. She would also receive 5% of her own account. In addition, at the time of Kobe's death in 2017 she would receive a payment of $24,004 (in 2002 dollars) from Kobe's Guarantee Account.

Providing Economic Security for Divorced Women

Divorced women would no longer need to wait to receive spouse benefits if their ex-spouse marries someone else within two years. Under current law, in certain circumstances where the retired individual is working or hasn't started collecting benefits, women must wait two years after divorcing before they may receive divorced spouse benefits. The Guarantee Plus Plan eliminates this two-year waiting period when the ex-spouse marries someone else.

Women would receive equal shares of the couple's contributions in the event of divorce. The contributions and accumulations to a couple's Guarantee Accounts during a marriage would be divided equally upon divorce as long as the marriage lasts at least one year. This recognizes that couples share assets during marriage, and that a lower-earning spouse should not be penalized at divorce.

Benefits for divorced surviving spouses could be higher than under current law.

In addition to allowing divorced women to keep a portion of the Guarantee Account accumulated during marriage, the Guarantee Plus Plan increases widow's benefits to 75% of what the couple was receiving before the worker died, or the average retired worker benefit.

Enhances Benefits for Working Women

The Guarantee Plus Plan enhances benefits for women who take time away from the workforce to raise young children and those whose jobs are not covered under Social Security. These provisions will help improve the economic security of women when they retire or if they become disabled.

More and more, women are participating in the workforce. Yet, many must either reduce their work hours or withdraw completely for several years to care for their children. As a result, women have three times more years with no earnings and even more years of reduced earnings figured into their benefit amounts, which reduces their monthly benefits.

The Guarantee Plus Plan would give a credit equaling 25% of the worker's average wages to a mother (or father) who takes time out of the workforce to care for their children age 6 or younger.

Women with young children are less likely to work full time than other women. Only 65% of women with children under age 6 were working in 2000, compared with 79% with older children. The childcare credit helps insure these women continue to build Social Security benefits while performing this vital role in our society

Real Life Example

Lucy was divorced after 9 years of marriage and spent most of her work career at home raising her children. When she reaches age 62 in 2004, she has only 10 years of Social Security covered work, during which she earned low wages. Under current law, her benefit would be $234 per month (in 2002 dollars) a month.

Under the Guarantee Plus Plan, because of the additional 5 years of childcare credits, her benefit would be $247 (in 2002 dollars) per month. Moreover, these benefits are guaranteed and Lucy will receive a 5% lump sum from her account.

The Guarantee Plus Plan increases benefits for persons with pensions from work not covered under Social Security.

Today, many women are dually entitled to benefits. They may receive their own Social Security worker's benefit, and if that is less than 50% of their spouse's benefit, they receive the additional amount as a Social Security spousal benefit. However, if a spouse receives a pension from work not covered by Social Security, she is affected by the Government Pension Offset (GPO). Under the GPO, her spouse benefit is reduced by 2/3 of the amount of her pension from non-covered work. Of those affected by the GPO, about three-fourths are women. The Guarantee Plus Plan would reduce the GPO offset to 1/3 of the pension from non-covered work, and increase the benefits for about half of those currently affected by the GPO.

Real Life Example

Mona is married to Mike. Both are age 21 today and earn average wages. Mona works all her career as a teacher and her wages are not covered by Social Security. She retires at age 62 and her teacher's pension is $800 per month (in 2002 dollars). Under current law, Mona's Social Security spousal benefit would be reduced from $622 to $89 per month.

Under the Guarantee Plus Plan, her spousal benefit would be $356 per month (in 2002 dollars), reflecting only a one-third reduction.

The Social Security Guarantee Plus Plan

Repealing the Earnings Penalty on Working Seniors

In 2001, over 190,000 beneficiaries ages 62 and older had their benefits completely withheld at least one month because of wages higher than allowed under the earnings penalty. The earnings penalty was abolished for workers who reached the full retirement age (age 65-67, depending on year of birth) effective January 1, 2000.

The *Social Security Guarantee Plus* **Plan helps seniors by repealing the earnings penalty for workers ages 62 through full retirement age.**

Under current law, workers age 62 through full retirement age who earn more than $11,520 in 2003 have their benefit reduced by $1 for every $2 of earnings over that amount. The Guarantee Plus Plan gradually phases out the limit by 2009.

Real Life Example

John and Jane worked full careers with earnings equaling the taxable maximum. They both retire at age 62 in 2009, but continue to work half time. Under current law, their annual Social Security benefit would be $18,056 (in 2002 dollars) each, but would be reduced due to the earnings penalty to $1,144 each for the year.

Under the Guarantee Plus Plan, both would receive the full $18,056.

Seniors who want to work should be allowed to continue working, even after they begin receiving Social Security benefits. Eliminating the earnings penalty will make it easier for seniors to work and contribute their experience and talent to the economy.

Elimination of the Earnings Test Penalty by 2009

Year	Earnings Exempt From Earnings Test Penalty Ages 62 Through Full Retirement Age	
	Current Law	**Guarantee Plus Plan**
2004	$11,760	$15,000
2005	$12,120	$20,000
2006	$12,720	$25,000
2007	$13,200	$30,000
2008	$13,800	$35,000
2009	$14,400	Repealed

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The Social Security Guarantee Plus Plan

Enhancing Income Security for Minority Workers

The Guarantee Plus Plan guarantees full promised current law Social Security benefits, including disability and survivor benefits.

- About 40% of elderly African American and Hispanic beneficiaries rely on Social Security benefits for all of their retirement income.
- African Americans also disproportionately benefit from the disability and survivor's benefits. In 2000, about 12 percent of the population was African American; however, 17 percent of disabled workers receiving benefits were African American.
- In addition, African Americans make up approximately 15 percent of the American population age 19 and under, but about 23 percent of all children age 19 and under receiving Social Security survivor benefits are African American.
- The Guarantee Plus Plan guarantees Social Security can continue to provide income security to African American and Hispanic workers and their families without any benefit cuts or tax increases.

In addition, the Guarantee Plus Plan provides all workers the opportunity to accumulate financial assets and build inheritable wealth.

- This is particularly important to African American and Hispanic workers. In 2000, African Americans had a median net worth (excluding home equity) of $1,166, and Hispanics had $1,850, compared with $13,473 for all families.
- The Guarantee Plus Plan creates wealth by letting workers keep 5 percent of the account balance at retirement and using the rest to fund guaranteed current law benefits, regardless of the how the investments performed.
- Workers who die before receiving retirement or disability benefits may leave their account balances to their heirs. This is especially important for minority workers who have less wealth, lower earnings, and shorter life expectancies than other workers. In addition to inheriting the account balance, survivors still receive full benefits promised under current law.
- Minorities would also benefit from enhancements included in the Guarantee Plus plan, such as increased benefits for widows (including disabled widows), divorced women, workers with pensions from work not covered under Social Security, women who take time out of the workforce for childcare, and workers who continue to work after retirement.

Real Life Example

George is age 21 and is an average wage earner. He dies at age 45, leaving two young children behind. Under current law, the children would receive a combined benefit of $2,356 a month (in 2002 dollars).

Under the *Social Security Guarantee Plus Plan,* the children would also receive $2,356 a month guaranteed, but in addition would receive a payment of $52,347 (in 2002 dollars) from George's Guarantee Account.

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For the past two-thirds of a century, Social Security has essentially operated on a pay-as-you go basis-- payroll taxes coming in go right back out in the form of benefits. That worked fine around the time Social Security began and there were 42 workers supporting every retiree. However, people are living longer, families are having fewer children, and the number of workers supporting every retiree is declining. Soon after baby-boomers start retiring, there will be only 2 workers supporting each retiree. That means there won't be enough payroll taxes coming in to pay full benefits. Like individual families, the great American family needs to start saving for the future.

The Guarantee Plus Plan is fiscally responsible

The Guarantee Plus Plan temporarily uses general revenues to establish personal accounts and pre-fund benefits. While this investment in Social Security's future requires more funds up-front than current law, it ultimately saves the government money. Over time, it reduces the amount of payroll taxes needed to pay benefits and permanently fixes Social Security's finances.

- Social Security's debt is already on the books. Over the next 75 years, the Guarantee Plus Plan reduces that debt and saves taxpayers $13.6 trillion.
- Even if we must borrow every dime to invest in Social Security's future, the Guarantee Plus Plan repays that debt and still saves almost $5 trillion.
- If we do nothing, paying promised benefits would place an unprecedented burden on the economy. Annual taxes needed to pay promised benefits would rise from 4.3% of the gross domestic product (GDP) today to 6.6% of GDP by 2078. Under the Guarantee Plus Plan, annual taxes needed to pay promised benefits would cost about 4% of GDP in the 75^{th} year.

The Guarantee Plus Plan makes Social Security a budget priority.

Some say we cannot afford to save Social Security because of budget deficits. I say we cannot afford not to, and we must make Social Security a budget priority.

- Just like families who set aside funds or borrow to invest in a new home or start a business, my plan sets aside assets today to ensure a financially sound Social Security in the future.
- If we do not make Social Security a budget priority, those who depend most on Social Security would face a bleak future. Without any changes, benefits would be cut by 27% when the trust funds are exhausted in 2042, increasing to a 32% cut in 2078. Social Security payroll taxes would have to increase 36% in 2042, growing to nearly a 50% increase by 2078 in order to keep paying promised benefits.
- If we do not invest in Social Security's future, we would also miss the chance to provide larger and fairer benefits to women and low-wage workers and give our kids and grandkids the peace of mind that Social Security is there for them.
- By saving assets to pay benefits and enabling workers to build real wealth, the Guarantee Plus Plan ensures Social Security remains as successful as it has been in the past in helping to provide an adequate income for retirees, disabled workers, and survivors without putting an undue burden on our kids and grandkids.

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The Social Security Guarantee Plus Plan

Questions and Answers

Fiscal Responsibility

We are now facing budget deficits for several years. Wouldn't this plan require the government to borrow extensively or require steep tax increases?

- Some plans address Social Security's future cash shortfalls by cutting benefits, raising taxes, using general revenues, or a combination of these options. Temporarily using general revenues is preferable to raising payroll taxes or cutting promised benefits. Those who criticize using current Social Security surpluses or general revenues need to explain how they would save Social Security forever without cutting benefits. Giving workers the opportunity to save money through personal accounts that will back up Social Security benefits with real assets is not a "cost," but an investment in a fiscally sound Social Security program.

- Social Security faces significant financial challenges whether or not the rest of the federal budget has surpluses or deficits. Any plan that saves Social Security addresses one of the greatest long-term fiscal challenges the federal government faces.

- General revenues should go towards securing the program by saving today to pay for future benefits and avoid raising taxes on our kids and grandkids.

- The Guarantee Plus Plan would use general revenues only during a transitional period, until the accounts are firmly established. Ultimately, the Guarantee Plus Plan, including contributions to Guarantee Accounts, returns the system and the trust funds to self-sufficiency. By the end of the 75-year estimation period, even if needed funds are borrowed, the plan repays all funds and begins generating excess cash to plump up the government's bottom line.

- Borrowing money to secure Social Security through personal accounts means that for the first time, the government will be using the funds to create a nation of savers rather than paying off the spending bill of the federal government. Also, even if the government had to temporarily borrow the funds to establish personal accounts, the effect on the economy would be neutral. $1 of government debt would be offset by $1 of worker savings and assets in the private market.

- Doing nothing potentially commits the government to borrowing $36 trillion (in 2003 dollars) by 2078 just to maintain current benefits, with debt continuing to grow each year thereafter. Unlike any temporary borrowing for personal accounts, this additional government debt buys no fiscal security for Social Security, does not strengthen the safety net, and does not provide more equitable benefits for women.

Isn't investing under the Guarantee Plus Plan more inefficient than similar investing through the trust funds?

- Not necessarily. The Guarantee Plus plan provides for low administrative costs that are capped at ¼ of 1 percent of the account's assets. This ensures that returns on investments are not consumed by high administrative costs.

- Alan Greenspan has said of investment through the trust funds "...[I]t would be exceptionally difficult to insulate the government's investment decisions from political pressures. Thus, over time, having the federal government hold significant amounts of private assets would risk sub-optimal performance by our capital markets, diminished economic efficiency, and lower overall standards of living than could be achieved otherwise." (Hearing before the Committee on the Budget, U.S. Senate, January 25, 2001.)

- Government investment denies workers the right to pass an account on to heirs in cases of death before retirement and the opportunity to accumulate additional wealth by keeping a portion of their account upon retirement, all of which the Guarantee Plus Plan provides.

There is no such thing as a free lunch. How can this plan guarantee at least current law benefits, improve benefits for women, restore Social Security's solvency, and increase budget surpluses?

- The Guarantee Plus plan relies on general revenues to pay for the baby boom transition and fund the savings accounts that secure the system. These funds are in high demand to pay for other priorities, such as Medicare, national defense, and education. The Guarantee Plus Plan makes Social Security a priority by putting aside money, without any excuses, like smart families do when they plan for their retirement.

- If we do not start saving now, the alternatives would have devastating consequences for those who depend most upon Social Security for retirement income and upon future workers. Without any changes, benefits would be cut by 27% in 2042 when the trust funds are exhausted, increasing to a 32% cut in 2078. Otherwise, payroll taxes would have to increase 36% in 2042, growing to nearly a 50% increase by 2078.

- By starting to save now, we will help ensure Social Security remains as successful as it has been in the past in helping to provide an adequate income for retirees, disabled workers, and survivors without putting an undue burden on our kids and grandkids.

If the investments do not perform as well as expected, will the program still be solvent, or will people face benefit cuts or tax increases?

- Under the Guarantee Plus Plan, the trust funds are never exhausted even if total returns are about one-fifth lower than what is expected.

- Since the Guarantee Accounts would be invested and drawn down over several decades, annual fluctuations will smooth out over time and are expected to provide a sufficient rate of return to ensure solvency for 75 years and beyond.

Since the government would pay current law benefits regardless of the Guarantee Account's performance, wouldn't workers have an incentive to take too much investment risk and leave the government holding the bag?

- No. Investment options under the Guarantee Plus Plan would be required to meet high standards for soundness and would be approved by the Board that administers personal accounts, similar to the savings plan federal workers and Congress enjoy. Workers would have a choice of a 60/40, 65/35 or 70/30 mix of stocks and bonds. The investments would be indexed funds that diversify risk. Therefore, workers could not gamble on individual high-risk stocks at the government's expense. Also, though workers would receive their full Social Security benefit regardless of the Guarantee Account's performance, they would still have to consider how their investment choices would affect the lump sum paid from the account at retirement or the balance that could be passed to heirs in cases of death before retirement.

<u>Nature of the Guarantee Plus Plan</u>

Won't the Guarantee Plus plan lead to substantial weakening of support for Social Security, since some higher-wage workers would see little difference between the payment from their Guarantee Accounts and the benefit level to which they are entitled?

- No. The Guarantee Plus Plan will lead to even greater support for Social Security, since workers at all wage levels would be better off than under current law. Workers who collect benefits will receive a lump sum payment that they may use as they wish. Workers who die before collecting benefits will have an account to bequeath to their heirs.

- Higher taxes and lower benefits, the inevitable consequence of delay, would further erode public support for Social Security, not only among wealthier taxpayers, but also lower-income workers who would fare worst if we do not act now to sustain promised benefits. Under that scenario, workers, retirees, or both would be worse off than under current law.

Won't the Guarantee Plus Plan expose retirees to unnecessary risk?

- **No. The real risk is doing nothing . By foregoing proposals like the Guarantee Plus Plan, we**
  Risk driving the system into insolvency
  Risk not enhancing benefits for women
  Risk not giving low-wage workers bigger savings accounts
  Risk not strengthening the social safety net
  Risk not providing retirees with lump sum payments to ease retirement needs

- The Guarantee Plus plan shields everyone from individual investment risk by guaranteeing current law benefits regardless of how their investments perform.

- The plan requires workers to invest in broad equity index funds and high-grade corporate bonds. These are not high-risk investments, especially over the long term.

- Maintaining the current financing structure is much riskier, because benefits must be cut or taxes must be raised to keep the system solvent.

<u>Individual Impacts</u>

Can the elderly and poor be taken advantage of under this plan?

- Absolutely not. The refundable credit is given to all workers electing to participate in Guarantee Accounts and must be invested with mutual funds and other financial institutions meeting strict stability and soundness standards. Moreover, Guarantee Accounts must be invested in a diversified mix of equity index funds and high-grade corporate bonds. These safeguards are designed to protect workers who do not have experience with market investments.

- Regardless of the Guarantee Account's investment performance, workers will receive their full promised benefits from Social Security.

Social Security benefits today are tilted toward low-income families. Won't the Guarantee Plus plan just make the rich richer?

- No. The Guarantee Plus Plan ensures full promised benefits using today's formulas, so that it maintains the exact same protections for low-income workers as the current system.

- The Guarantee Plus Plan contributes a larger percentage of wages to the accounts of low-wage workers than to high-wage workers, enabling them to build wealth more quickly. The Guarantee Plus Plan also gives low-income families an opportunity to invest in stocks and bonds, many of which would have no other opportunity. In 2000, only about 9% of families with income in the lowest one-fifth of all households owned stocks and mutual fund shares, compared with 27% of households at all income levels.

- In addition, the Guarantee Plus Plan would help low-income workers, who tend to have shorter life expectancy, to create wealth they could pass along to their children if they die before receiving benefits. This would be in addition to current-law survivor and disability benefits.

- Moreover, maintaining Social Security's current financing structure would require large tax increases or benefit cuts. These tax increases or benefit cuts would hurt low-income families the most. The Guarantee Plus Plan avoids that entirely.

Won't this plan hurt women, minorities, and other low-income workers whose account contributions- and thus balances at retirement- will be lower?

- Absolutely not. The whole point of the Guarantee Plus Plan is that no one is "hurt" compared with current law. The progressive benefit structure remains intact and the plan avoids the benefit cuts or tax increases that would particularly hurt women and low-income workers the most.

- In fact, the Guarantee Plus Plan enhances benefits for divorced and elderly women, who have higher than average poverty rates.

- The Guarantee Plus Plan also contributes a larger percentage of wages to the accounts of low-wage workers than to high-wage workers, enabling them to build wealth more quickly.

- In addition, all workers would be entitled to keep 5% of their account balance at retirement or disability. Therefore, everybody will be better off under the Guarantee Plus Plan and <u>nobody</u> will be worse off.

Since women and minorities are more risk averse, wouldn't they be disadvantaged by lower account balances?

- No. First, low-wage workers will receive contributions that are a larger percentage of their wages than higher-wage workers. Second, all workers would invest their Guarantee Accounts in a prudent mix of equity index funds and high-grade corporate bonds.

- With promised benefits ensured, all individuals, not just the wealthy, can build wealth without worrying about the risks.

<u>Investment Safeguards</u>

What will happen to Social Security if the stock market declines?

- Beneficiaries will not be affected, even if an individual retires during a market downturn, because current promised benefits are paid regardless of individual market returns.

- Depositing and withdrawing contributions over long periods of time (also known as dollar cost averaging) is a proven way of building wealth and minimizing the effect of short-term fluctuations in the private market. Moving toward a system in which some benefits are paid for ahead of time will only improve Social Security's financial outlook.

Wouldn't the large infusion of money into the stock market affect stock prices?

- A General Accounting Office Report states that equity and bond markets should be able to absorb the additional inflow without any significant long-term disruptions of either market. This is because the annual deposits would be only a small fraction of the equity and bond markets as a whole (1% or less).

- Government investment of the same funds, however, would very likely result in negative economic effects according to the Federal Reserve Chairman, Mr. Greenspan.

<u>Efficient Administration to Control Costs</u>

Won't administrative costs hurt low-income workers with small account balances?

- No. Under the Guarantee Plus Plan, administrative costs of the Guarantee Accounts are limited to ¼ of 1 percent per year (25 cents of every $100 invested). Social Security's actuaries say this is "reasonable" given how the accounts are designed.

- Costs are controlled by: (1) utilizing current tax collection and benefit administration systems; (2) keeping investment options and procedures simple and straightforward; and (3) pooling account balances before they are allocated to accounts.

Personal Accounts: Money for families when they need it most

How does the Guarantee Plus plan treat balances remaining in the worker's account at death?

- If the worker dies prior to collecting benefits, the worker's Guarantee Account passes tax-free to the worker's estate. Once the Guarantee Account passes to a worker's heirs, they are free to spend it as they see fit.

- Workers who retire or are disabled receive a lump sum of 5% of the account's balance when benefits start. The remaining balance is used solely to help pay full Social Security benefits, both for the worker and his spouse. Balances in a beneficiary's Guarantee Account after both the beneficiary and spouse die go to the Social Security program, just like "unused" Social Security taxes benefit the program today.

If the government effectively uses most of the account balance to pay benefits, why should a worker care how this money is invested during or after his working years?

- Depending on investment performance, the Guarantee Accounts may result in the worker receiving larger retirement benefits than under current law. Also, the 5% lump sum paid at retirement could be significant. It might pay off a mortgage, buy a new car, or fund health insurance benefits.

- Also, workers who die before receiving benefits will have larger accounts to leave to their heirs if they invest wisely.

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