United States General Accounting Office

GAO

Report to Congressional Requesters

November 1999

SOCIAL SECURITY

Evaluating Reform Proposals

GAO

Accountability * Integrity * Reliability

GAO/AIMD/HEHS-00-29

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United States General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-283957

November 4, 1999

Congressional Requesters

This report responds to your request that we analyze the potential budgetary and economic effects of several Social Security reform proposals, together with the Social Security framework outlined by the President and his Universal Savings Account (USA) proposal. We agreed to examine how these proposals balance adequacy and equity concerns and provide for reasonable implementation and communication of any changes. A wide array of proposals has been put forth to restore Social Security's long-term solvency, reflecting different perspectives on and approaches to addressing the program's financing problem.

As requested, we examined the following reform proposals: (1) the Social Security Guarantee Act outlined by Ways and Means Committee Chairman Bill Archer and Social Security Subcommittee Chairman Clay Shaw, (2) H.R. 1793, the 21st Century Retirement Security Act, (3) the Senate Bipartisan bill announced by Senators Judd Gregg, Bob Kerrey, John Breaux, and Chuck Grassley, (4) the Social Security plan outlined by Budget Committee Chairman John Kasich, and (5) the Social Security framework outlined by the President, including the USA proposal. On October 13, 1999, we briefed your offices on the results of our analysis. Our briefing, updated to reflect the President's October 26, 1999, Social Security financing proposal, is reprinted in appendix I. We conducted this work from August 1999 through October 1999 in accordance with generally accepted government auditing standards.

As agreed with your offices, our assessments of the reform proposals are based on the analytic framework we provided to the Congress last March.[1] That framework consists of three basic criteria:

- the extent to which the proposal achieves sustainable solvency and how it would affect the economy and the federal budget,

[1] *Social Security: Criteria for Evaluating Social Security Reform Proposals* (GAO/T-HEHS-99-94, March 25, 1999).

- the balance struck between the twin goals of income adequacy (level and certainty of benefits) and individual equity (rates of return on individual contributions), and
- how readily such changes could be implemented, administered, and explained to the public.[2]

In evaluating each of the proposals against the three basic criteria, we used a set of detailed questions, which can be found in the appendix to this letter, that help describe potential effects of reform proposals on important policy and operational aspects of public concern.

As you requested, we used our long-term economic model in evaluating the various proposals against the first criterion, that of financing sustainable solvency. Specifically, we used this model to simulate the potential fiscal and economic impacts of each proposal over a 75-year projection period. We offer these simulation results not as precise forecasts but rather as a useful way to compare the potential outcomes of alternative policies within a common economic framework. Although any proposal's ability to achieve and sustain solvency is sensitive to economic and budgetary assumptions, using a common framework can facilitate comparisons of alternative reform proposals. Since 1992, we have provided the Congress with a long-term perspective by modeling the implications of differing fiscal policy paths for the nation's economy.[3] For these paths we use the Trustees' intermediate estimates for Medicare and Social Security spending; in other respects, we generally rely on the Congressional Budget Office's (CBO) fiscal and economic assumptions.

[2] *Social Security Reform: Implementation Issues for Individual Accounts* (GAO/HEHS-99-122, June 18, 1999) and *Social Security Reform: Administrative Costs for Individual Accounts Depend on System Design* (GAO/HEHS-99-131, June 18, 1999).

[3] For more information on GAO's long-term model, see *Budget Issues: Long-Term Fiscal Outlook* (GAO/T-AIMD/OCE-98-83, February 25, 1998).

In simulating the reform proposals, we relied on income and cost estimates prepared by the Office of the Actuary at the Social Security Administration (SSA), and we adapted the model as appropriate to reflect specific reform proposal provisions. We considered each proposal in isolation. That is, we did not include any other proposals made by reform sponsors or the President that would have other fiscal effects, such as proposed non-Social Security related tax cuts or spending increases. For the President's financing proposal, we analyzed the transfers as specified in his October 1999 proposal–the Strengthen Social Security and Medicare Act of 1999.[4] That administration proposal does not include USAs. Since we did not have sufficient data to simulate USAs, we provide a qualitative evaluation. As you requested, our simulation results also compare each proposal with alternative fiscal policy paths developed in our prior model work.

We used qualitative research to examine how well the proposals balance adequacy and equity concerns and provide for reasonable implementation and communication of any changes. In so doing, we relied on GAO's issued and ongoing body of work on Social Security reform. This work addresses various issues raised by reform approaches, including establishing individual accounts, raising the retirement age, and the impact of reforms on minorities and women.[5]

The use of these criteria to evaluate various reform proposals highlights the trade-offs that exist between efforts to achieve solvency for the Old Age and Survivors Insurance and Disability Insurance (OASDI) trust funds and to maintain adequate retirement income for current and future beneficiaries. For example, proposals that achieve solvency by reducing current-law benefits and establishing individual accounts will result in

[4]For our evaluation of the President's January proposal, see *Social Security: What the President's Proposal Does and Does Not Do* (GAO/T-AIMD/HEHS-99-76, February 9, 1999), and *Social Security and Surpluses: GAO's Perspective on the President's Proposals* (GAO/T-AIMD/HEHS-99-96, February 23, 1999). For our observations on the President's Midsession Review, see *Federal Budget: The President's Midsession Review* (GAO/OCG-99-29, July 27, 1999).

[5]See *Social Security: Individual Accounts as an Element of Long-Term Financing Reform* (GAO/T-HEHS-99-86, March 16, 1999); *Social Security Reform: Implications of Private Annuities for Individual Accounts* (GAO/HEHS-99-160, July 30, 1999); *Social Security: Issues in Comparing Rates of Return With Market Investments* (GAO/HEHS-99-110, August 5, 1999); *Social Security Reform: Implications of Raising the Retirement Age* (GAO/HEHS-99-112, August 27, 1999); *Social Security Reform: Implications for Women* (GAO/T-HEHS-99-52, February 3, 1999); and *Social Security and Minorities: Current Benefits and Implications of Reform* (GAO/T-HEHS-99-60, February 10, 1999).

greater uncertainty and variability in retirement income levels among similarly situated individuals. In addition, any proposal that would guarantee benefits and rely on enhanced rates of return on individual accounts to finance long-term solvency may create certain contingent liabilities that could serve to increase the deficit over the long term. Further, in any reform proposal, attention must be paid to the impact on poverty among the elderly.

We requested comments on a draft of this report from the Social Security Administration. SSA provided technical comments, which we have incorporated as appropriate.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until tomorrow. At that time, we will send copies to the Honorable Bill Archer, Chairman, and the Honorable Charles B. Rangel, Ranking Member, House Ways and Means Committee; the Honorable Clay Shaw, Chairman, and the Honorable Robert T. Matsui, Ranking Member, Subcommittee on Social Security, House Ways and Means Committee; other interested congressional committees; the Honorable Kenneth S. Apfel, Commissioner of Social Security; and the Honorable Lawrence Summers, Secretary of the Treasury. Copies will be made available to others upon request.

If you or your staffs have any questions about this report, please contact Cynthia M. Fagnoni, Director, Education, Workforce, and Income Security Issues, on (202) 512-7215 or Paul L. Posner, Director, Budget Issues, on (202) 512-9573.

David M. Walker
Comptroller General
of the United States

List of Requesters

The Honorable John B. Breaux
The Honorable Charles E. Grassley
The Honorable Judd Gregg
The Honorable Robert Kerrey
United States Senate

The Honorable John R. Kasich
The Honorable Jim Kolbe
The Honorable Charles W. Stenholm
House of Representatives

Evaluating Social Security Reform Proposals

GAO

Evaluating Social Security Reform Proposals

Briefing for Congressional Requesters

Proposals Studied

- Archer-Shaw
- Kolbe-Stenholm, H.R. 1793
- Gregg-Kerrey-Breaux-Grassley, S. 1383
- Kasich
- President's Social Security Transfer Proposal and the Universal Savings Account (USA) Proposal

2

Criteria for Evaluating Social Security Reform Proposals

The three basic criteria that provide policymakers with a framework for assessing reform plans:

- Financing Sustainable Solvency
- Balancing Adequacy and Equity in the Benefits Structure
- Implementing and Administering Reforms

3

Evaluating Social Security Reform Proposals

- Comprehensive proposals can be evaluated against three basic criteria.
- Reform proposals should be evaluated as packages that strike a balance among individual reform elements and important interactive effects.
- Some proposals will fare better or worse than other proposals under each criterion.
- Overall evaluation of each proposal depends on the weight individual policymakers place on each criterion.

4

Financing Sustainable Solvency

This criterion evaluates the extent to which the proposal achieves sustainable solvency, including how the proposal would affect the economy and the federal budget.

To what extent does the proposal:

- Reduce future budgetary pressures?
- Reduce debt held by the public?
- Reduce the cost of the Social Security system as a percentage of GDP?
- Reduce the percentage of federal revenues consumed by the Social Security system?
- Increase national saving?
- Restore 75-year actuarial balance and create a stable system?
- Raise payroll taxes, draw on general revenues, and/or use Social Security trust fund surpluses to finance changes?
- Create contingent liabilities?
- Include “safety valves” to control future program growth?

5

Balancing Adequacy and Equity

This criterion evaluates the balance struck between the twin goals of income adequacy (level and certainty of benefits) and individual equity (rates of return on individual contributions).

To what extent does the proposal:

- Change current-law benefits for current and future retirees?
- Maintain benefits for low-income workers who are most reliant on Social Security?
- Maintain benefits for the disabled, dependents, and survivors?
- Ensure that those who contribute receive benefits?
- Provide higher replacement rates for lower income earners?
- Expand individual choice and control over program contributions?
- Increase returns on investment?
- Improve intergenerational equity?

6

Implementing and Administering Reforms

This criterion evaluates how readily such changes could be implemented, administered, and explained to the public.

To what extent does the proposal:

- Provide reasonable timing and funds for implementation and result in reasonable administrative costs?
- Allow the general public to readily understand its financing structure and increase public confidence?
- Allow the general public to readily understand the benefit structure and avoid expectation gaps?
- Limit the potential for politically motivated investing?

7

Financing Sustainable Solvency
GAO's Long-term Economic Model

- GAO's long-term economic model is used to help assess the potential fiscal and economic impacts of Social Security reform proposals.
- The economic model was originally developed by economists at the Federal Reserve Bank of New York.
- The key interaction between the budget and the economy in the model is the effect of the unified federal deficit/surplus on the amount of national saving available for investment, which influences long-term economic growth.

8

Financing Sustainable Solvency
Interpreting Long-term Simulations

- Long-term simulations provide illustrations--not precise forecasts--of the relative fiscal and economic outcomes associated with alternative policy paths.

- Long-term simulations are useful for comparing the potential outcomes of alternative policies within a common economic framework over the long term.
  - Recognizing the inherent uncertainties of long-term simulations, we have generally chosen conservative assumptions, such as holding interest rates and total factor productivity growth constant. Variations in these assumptions generally would not affect the relative outcomes of alternative policies.
  - The model simulates the interrelationships between the budget and the economy over the long term and does not reflect their interaction during short-term business cycles.

- Long-term simulations are not predictions of what will happen in the future. In reality, policymakers likely would take action before the occurrence of the negative out-year fiscal and economic consequences reflected in some simulated fiscal policy paths.

9

Financing Sustainable Solvency
Social Security Reform Proposals in the Model

- Reform proposal cost and income estimates are from SSA's Office of the Actuary.
  - For each proposal, the OASDI cost estimate reflects all proposed reforms affecting benefits. These include increases in the retirement age, reduced COLAs, changes in the index used to adjust initial benefit levels, benefit reductions meant to offset individual accounts, and other proposed changes.
  - For each proposal, the OASDI income estimate reflects such elements as transfers from the general fund to the trust funds, the redirection of revenue from the taxation of benefits from the HI trust fund to the OASDI trust funds, and "carve-outs" from the payroll tax used to establish individual accounts.
- For all reform proposals, on-budget revenue and spending reflect the assumptions included in GAO's no action path,[1] adjusted for proposed reform proposal changes affecting on-budget totals.
  - Changes include transfers from the general fund to the OASDI trust funds, tax credits used to fund individual accounts, and other provisions that would affect on-budget totals.

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[1]Assumptions underlying the no action path are shown in attachment I.

Financing Sustainable Solvency
Alternative Fiscal Policy Simulations

Reform simulations are compared to several long-term simulations developed as part of GAO's ongoing model work. These simulations all assume payment of current-law Social Security benefits using general revenues to supplement payroll tax financing.

- **No action** assumes no changes in current policies and thus results in saving the unified surpluses. This assumption implies no emergency spending and actual spending that falls within the existing discretionary caps. Thus, unified budget surpluses through 2029 are used to reduce debt held by the public. Thereafter, deficits are permitted to emerge. Discretionary spending follows CBO's 10-year projections, which assume compliance with the spending caps through 2002 and growth with inflation through 2008. Thereafter, we assume discretionary spending grows with the economy.

- **Eliminate non-Social Security surpluses** assumes that permanent unspecified policy actions (i.e., spending increases and/or tax cuts) are taken through 2009 that eliminate the projected on-budget surpluses. Thereafter, these unspecified actions are projected through the end of the simulation period. On-budget deficits emerge in 2010, followed by unified deficits in 2017.

- **Long-term on-budget balance** assumes that the on-budget surplus is eliminated through 2009, as in the previous path. Thereafter, the on-budget portion is kept in balance by actions that cut spending and/or raise revenue to prevent on-budget deficits from emerging. This results in a unified surplus/deficit equal to the OASDI trust funds' annual surplus/deficit through 2034 and equal to the Social Security annual cash deficit thereafter.

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Archer-Shaw

- No reduction in current-law benefit. Actual retirement income could be higher depending on account balance.
- Mandatory "add-on" individual accounts equal to 2% of taxable payroll. Worker chooses among several mutual fund options, each 60% equities and 40% fixed income securities.
- Individual accounts are financed through a refundable tax credit.[1] Payroll tax rates are reduced by 2.5 percentage points in 2050 and an additional 1 percentage point in 2060.[2]
- Benefit amount: benefit is either current law or payout based on annuitized account balance, whichever is higher. Account balance is gradually returned to OASDI trust funds to finance benefits. Account balance is left to heirs if worker dies before receiving benefits.

[1]Participants would not actually file for this credit on their tax returns; rather, it would be automatically credited to their individual accounts.

[2]According to committee staff, this provision may be changed.

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Archer-Shaw
Financing Sustainable Solvency

As illustrated in the following graphs, compared to No Action, the Archer-Shaw proposal:

- Reduces projected unified surpluses and increases projected unified deficits as a share of GDP through the middle of the next century, then reduces projected unified deficits through the end of the simulation period. (Figure 1)
- Results in higher levels of debt held by the public until the final years of the simulation period. (Figure 2)
- Has little impact on the net government cost of Social Security as a share of GDP in 2030 but cuts the cost of the program roughly in half by 2074. (Figure 3)
- Lowers net Social Security spending slightly as a share of federal revenues in 2030. In 2074 program spending would consume about half as much of federal revenues as in No Action--or about the same share of federal revenues as today. (Figure 4)

Note: Social Security spending is net of the offset from the individual accounts.

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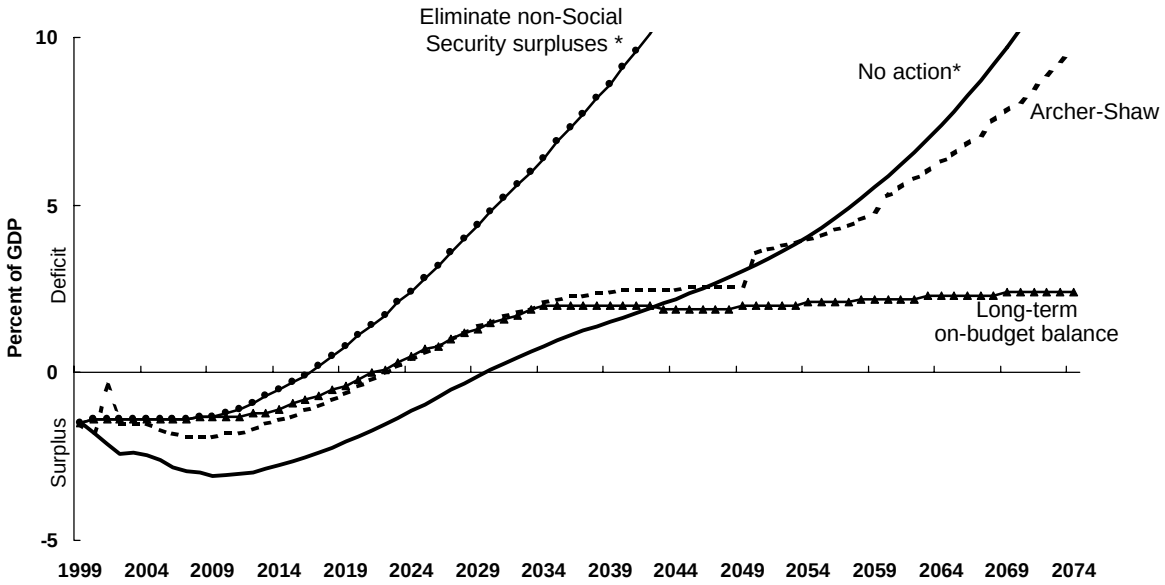
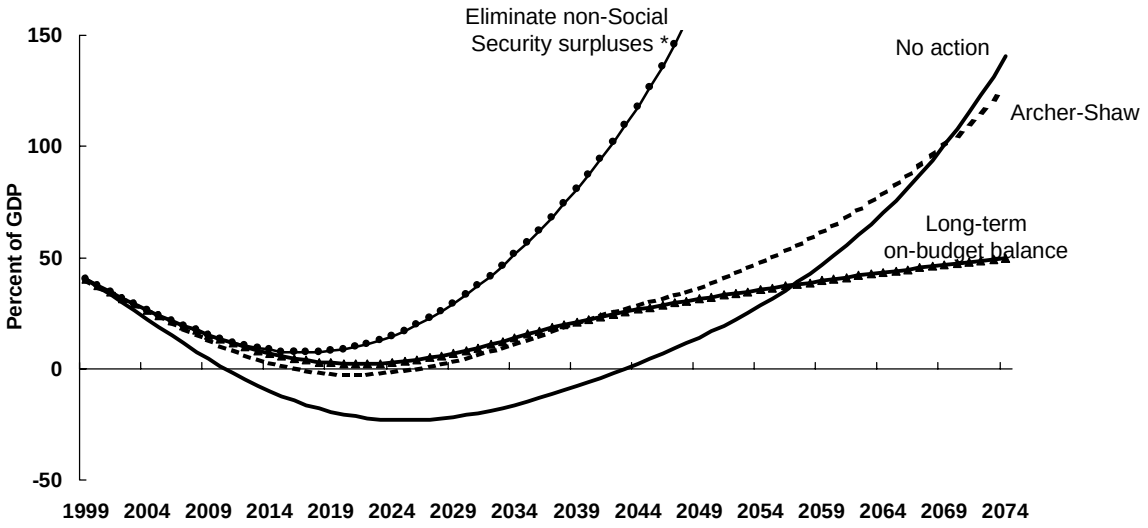
Figure 1: Archer-Shaw Unified Deficits/Surpluses as a Share of GDP



*Data end when deficits reach 10 percent of GDP.

14

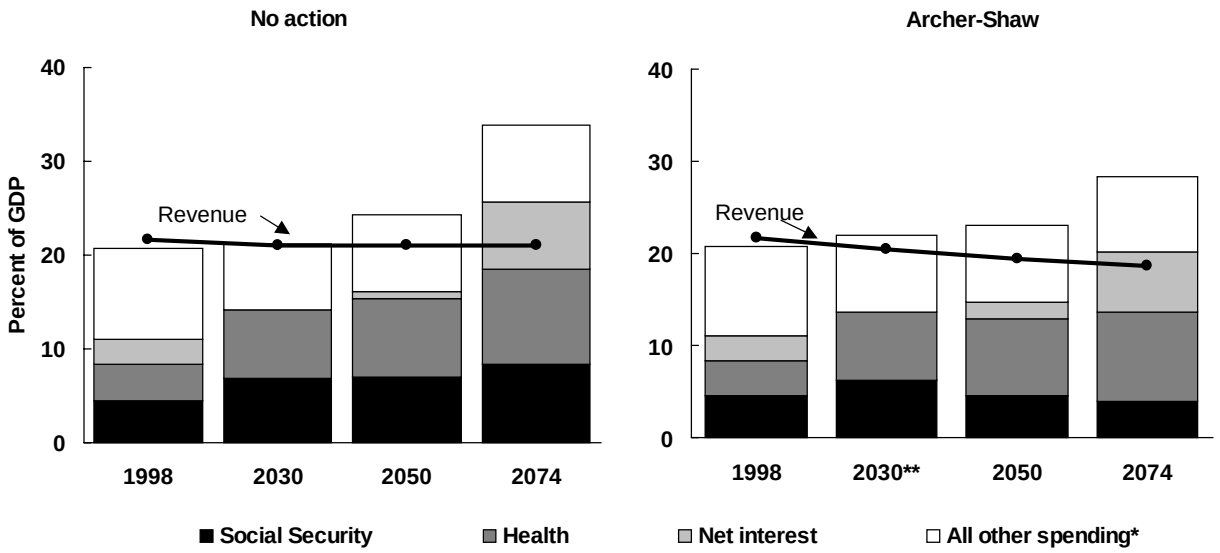
Figure 2: Archer-Shaw Debt Held by the Public as a Share of GDP



*Data end when debt reaches 150 percent of GDP.

15

Figure 3: Composition of Spending as a Share of GDP in 1998 and Under No Action and Archer-Shaw



*All other spending includes offsetting interest receipts in 2030 under no action.
**Net interest is .03 percent in 2030.

Note: Since a tax credit reduces revenue, revenue under Archer-Shaw is net of the tax credit for individual accounts. Social Security spending is net of the offset from the individual accounts.

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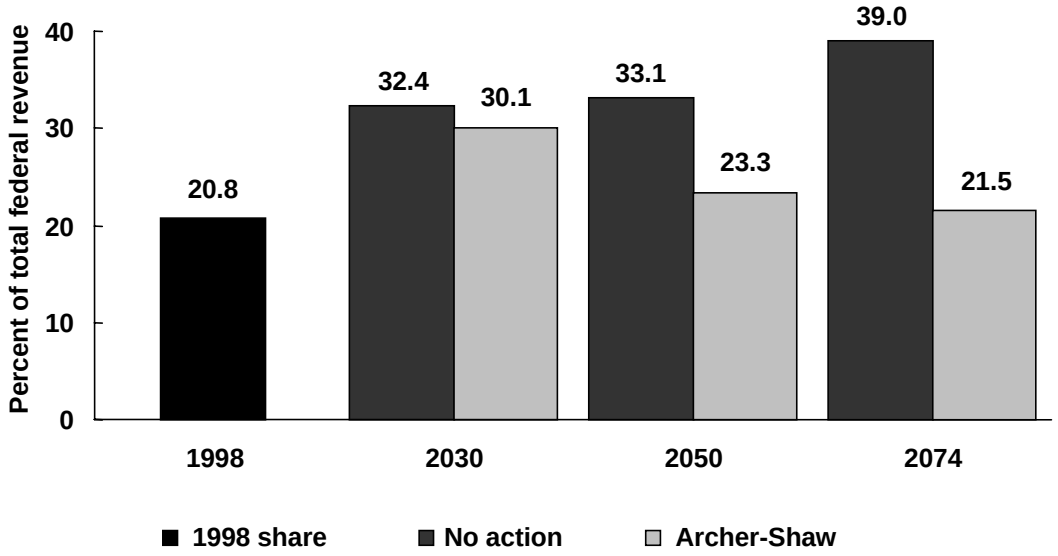
Figure 4: Social Security Spending as a Share of Total Federal Revenue in 1998 and Under No Action and Archer-Shaw



Note: Since a tax credit reduces revenue, revenue under Archer-Shaw is net of the tax credit for individual accounts. Social Security spending is net of the offset from the individual accounts.

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Archer-Shaw
Financing Sustainable Solvency

- Initially, no net effect on national saving. Government saving is reallocated to private saving. The government captures a greater portion of the returns to national saving through individual account investments in private equities. Payroll tax reductions in 2050 and 2060 would reduce national saving.[1]
- Restores 75-year actuarial balance and produces a stable trust fund ratio at the end of the 75-year projection period. Actuaries note that these results depend greatly on the assumed yield on the individual account investments.[2]
- Finances individual accounts from general revenues by means of a refundable tax credit. Returns to individual accounts determine magnitude of benefit offset. Payroll tax reductions begin in 2050.[3]
- Creates a contingent liability through guarantee of current law benefits regardless of individual account performance.
- Contains no new “safety valves” to control future program growth.

[1]Analysis limited to first order effects on saving. Effects on saving behavior in response to specific reform provisions are not considered given the lack of expert consensus.
[2]The actuaries assumed an expected real portfolio yield of 5.35 percent net of administrative expense.
[3] According to committee staff, this provision may be changed.

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Archer-Shaw
Balancing Adequacy and Equity

- Maintains current-law benefits for current and future retirees, including low-income workers and others most reliant on Social Security.
- There are no changes to disabled, dependents, or survivor benefits.
- No change from the current OASDI structure in the way workers are covered. Each covered worker receives an annual refundable tax credit that is invested in an individual account.[1]
- The progressivity of the OASDI benefit structure remains unchanged. No progressivity built into the individual account structure.
- Workers have some investment choice, subject to certain limitations.
- There is the potential for higher returns on investment. In most cases these returns will be recaptured by the government.
- The move to advanced funding of Social Security may eventually improve intergenerational equity.

[1] Participants would not actually file for this credit on their tax returns; rather, it would be automatically credited to their individual account.

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Archer-Shaw
Implementing and Administering Reforms

- Funding for implementation is not explicitly discussed. The proposal provides no time frames for implementation.
- Proposal's estimate of 25 basis points may not be realistic, especially in the long term.
- Tax credit financing of the system may be difficult to explain.
- The "offset" feature of the proposal must be clearly explained; otherwise retirees may expect a larger return than the proposal actually provides, potentially creating an "expectations gap." An education program will be necessary.
- The proposal establishes a Social Security Board to oversee fund management.

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Kolbe-Stenholm, H.R. 1793

- Social Security defined benefits are generally reduced from current law. A new minimum benefit above current law is added, and formula changes increase progressivity of benefit structure.
- Individual mandatory "carve-out" accounts equal to 2% of taxable payroll. Additional voluntary contributions are allowed up to $2,000 annually. Lower income earners are also eligible for partial government match and may use EITC to contribute. Investment framework is modeled after Federal Thrift Savings Plan.
- Additional financing from (a) general revenues due to changes in cost-of-living adjustment and (b) revenues from taxation of Social Security benefits currently used to finance Medicare.
- At retirement, worker may purchase annuity or request monthly pay-out. If monthly pay-out plus Social Security benefit guarantee a lifetime income equal to poverty level, balance in excess of this requirement may be withdrawn. At death, balance may be left as lump sum or rolled over.

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Kolbe-Stenholm, H.R. 1793
Financing Sustainable Solvency

As illustrated in the following graphs, compared to No Action, the Kolbe-Stenholm, H.R. 1793, proposal:

- Reduces projected unified surpluses through about 2020, then maintains unified surpluses that average about 1.6 percent of GDP through the end of the simulation period. (Figure 5)
- Results in slightly higher debt held by the public in the short run. Debt held by the public eliminated about 2013 and long-run financial position of the government significantly improved. (Figure 6)
- Lowers the cost of Social Security as share of GDP in 2030 by 1.6 percentage points--about one fourth. Compared to No Action, the proposal cuts the cost of the program roughly in half by 2074. (Figure 7)
- Lowers Social Security spending as a share of federal revenues in 2030 by 7 percentage points--about one fifth. In 2074, program spending would consume about half as much of federal revenues as in No Action--or about the same share of federal revenues as today. (Figure 8)

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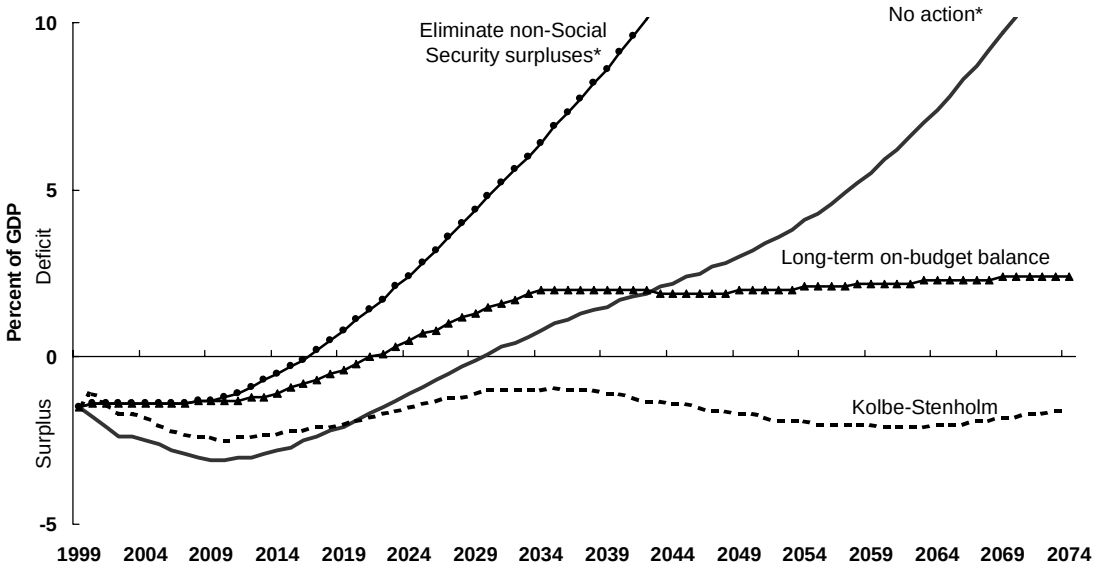
Figure 5: Kolbe-Stenholm, H.R. 1793 Unified Deficits/Surpluses as a Share of GDP



*Data end when deficits reach 10 percent of GDP.

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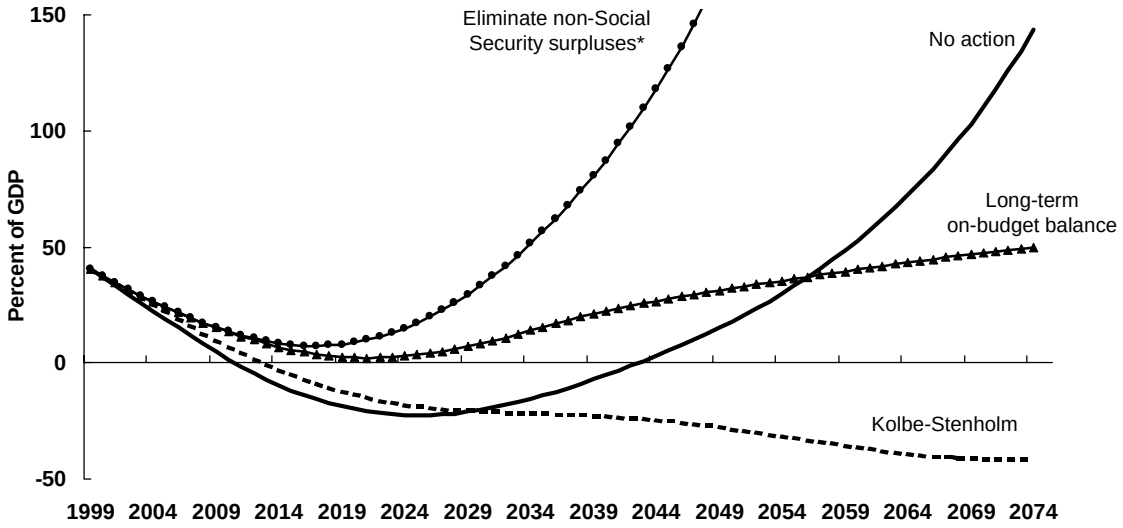
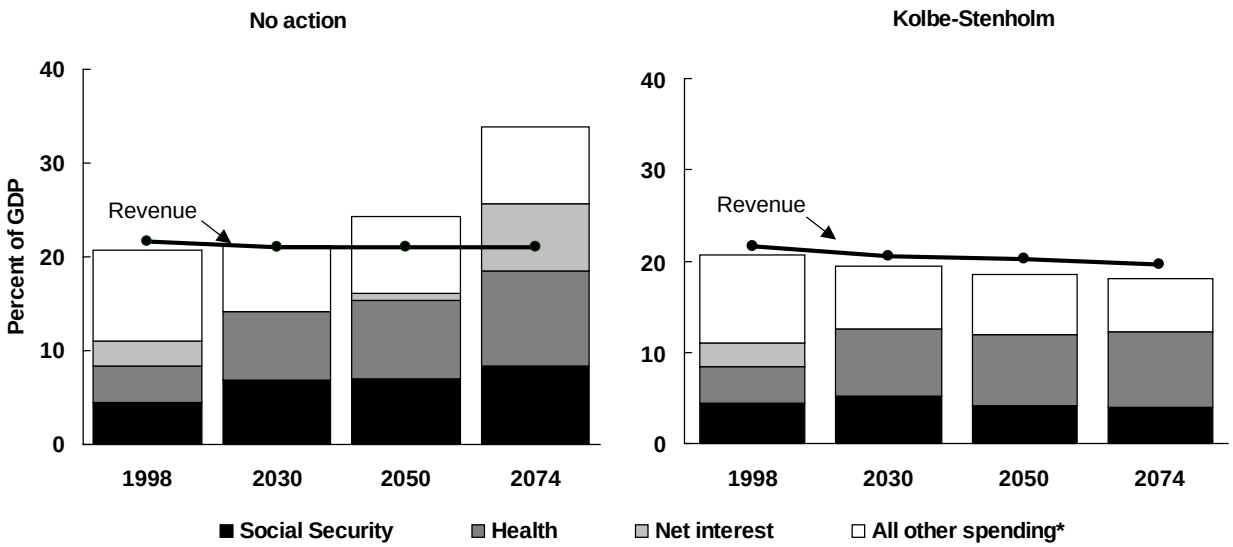
Figure 6: Kolbe-Stenholm, H.R. 1793 Debt as a Share of GDP



*Data end when debt reaches 150 percent of GDP.

24

Figure 7: Composition of Spending as a Share of GDP in 1998 and Under No Action and Kolbe-Stenholm



*All other spending includes offsetting interest receipts in 2030 in no action and in 2030, 2050, and 2074 under Kolbe-Stenholm.
Note: Since a payroll tax carve-out reduces revenue, revenue under Kolbe-Stenholm is net of the carve-out amount.

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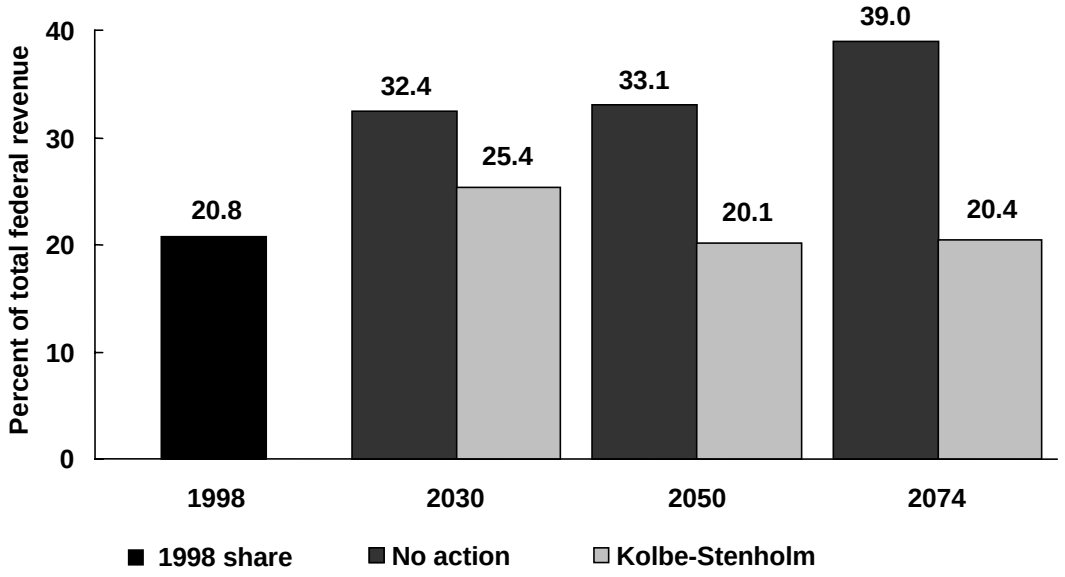
Figure 8: Social Security Spending as a Share of Total Federal Revenue in 1998 and Under No Action and Kolbe-Stenholm



Note: Since a payroll tax carve-out reduces revenue, revenue under Kolbe-Stenholm is net of the carve-out amount.

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Kolbe-Stenholm, H.R. 1793
Financing Sustainable Solvency

- National saving would increase primarily due to the improved fiscal position of the government resulting from the proposed benefit reductions. The carve-out would increase private saving and decrease government saving with no net effect on national saving. Saving subsidy for low-income workers could result in some increase in national saving.[1]
- Restores 75-year actuarial balance and produces trust fund ratio that at the end of the 75-year projection period is rising by about 6 percentage points per year.
- Finances individual accounts from payroll taxes. Government matching of voluntary contributions by low-income workers funded from general revenues. General revenue transfers in amounts reflecting COLA reductions are used to help finance Social Security benefits. Redirects all revenue from taxation of Social Security benefits to OASDI trust funds.
- Does not create contingent liabilities.
- Contains provision requiring SSA trustees to recommend statutory changes to the program in the event of unforeseen deterioration in Social Security solvency.

[1]Analysis limited to first order effects on saving. Effects on saving behavior in response to specific reform provisions are not considered given the lack of expert consensus.

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Kolbe-Stenholm, H.R. 1793
Balancing Adequacy and Equity

- Phases in reductions to current-law benefits by reducing the COLA, increasing the NRA and ERA, increasing the number of years of earnings used to calculate benefits, and the benefit computation period.
- Establishes a minimum benefit guarantee.
- Some of the changes in the way benefits are calculated could reduce disabled, dependents, and survivor benefits.
- All workers under age 55 are covered by the proposal.
- Formula changes increase the progressivity of the OASDI benefit structure; however, overall progressivity of the system becomes unclear given other offsetting changes to the benefit structure. Individual account structure includes a government match that decreases with income.
- There is potential for higher returns on investments; the risk is borne by the individual.
- Workers have some investment choice, subject to certain limitations.
- The move to advanced funding of Social Security may improve intergenerational equity.

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Kolbe-Stenholm, H.R. 1793
Implementing and Administering Reforms

- Funding for implementation is not explicitly discussed. The bill provides no time frames for implementation.
- There is not enough information to allow an estimate of administrative costs.
- Financing structure of the system may be difficult to explain.
- The changes to the benefit structure may be difficult to explain. An education program will be necessary.
- The proposal establishes an Individual Security Fund Board to oversee fund management.

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Gregg-Kerrey-Breaux-Grassley, S. 1383

- Social Security defined benefits are generally reduced from current law, but formula changes increase progressivity of benefit structure. No changes to benefits for current and near-retirees.

- Mandatory individual "carve-out" accounts equal to 2% of taxable payroll, with additional voluntary contributions allowed up to $2,000 annually. Lower and middle income earners are eligible for partial match. KidSave accounts are established for each child at birth with government contributions; these continue until child is age 5. Investment framework modeled on Thrift Savings Plan.

- Additional financing from (a) general revenues due to changes in cost-of-living adjustment and (b) portion of revenues from taxation of Social Security benefits currently used to finance Medicare.

- At retirement, a benefit reduction is taken to reflect government contributions to the individual account. Half of KidSave contributions are included in calculating the offset. Account distributions and treatment at death same as in Kolbe-Stenholm.

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Gregg-Kerrey-Breaux-Grassley, S. 1383 Financing Sustainable Solvency

As illustrated in the following graphs, compared to No Action, the Gregg-Kerrey-Breaux-Grassley, S. 1383, proposal:

- Reduces projected unified surpluses through about 2020, then maintains unified surpluses that average about 1.7 percent of GDP through the end of the simulation period. (Figure 9)
- Results in slightly higher debt held by the public in the short run. Debt held by the public eliminated about 2014 and the long-run financial position of the government significantly improved. (Figure 10)
- Lowers the cost of Social Security as share of GDP in 2030 by 1.5 percentage points--about one fifth. Compared to No Action, the proposal cuts the cost of the program roughly in half by 2074. (Figure 11)
- Lowers Social Security spending as a share of federal revenues in 2030 by 6.7 percentage points--about one fifth. In 2074, program spending would consume about half as much of federal revenues as in No Action--or about the same share of federal revenues as today. (Figure 12)

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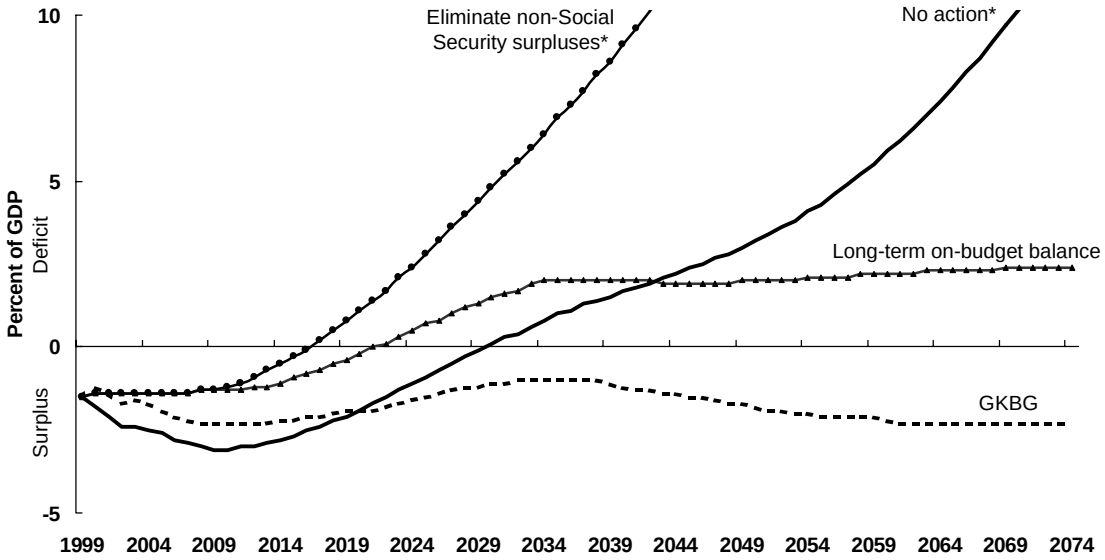
Figure 9: Gregg-Kerrey-Breaux-Grassley, S. 1383 Unified Deficits/Surpluses as a Share of GDP



*Data end when deficits reach 10 percent of GDP.

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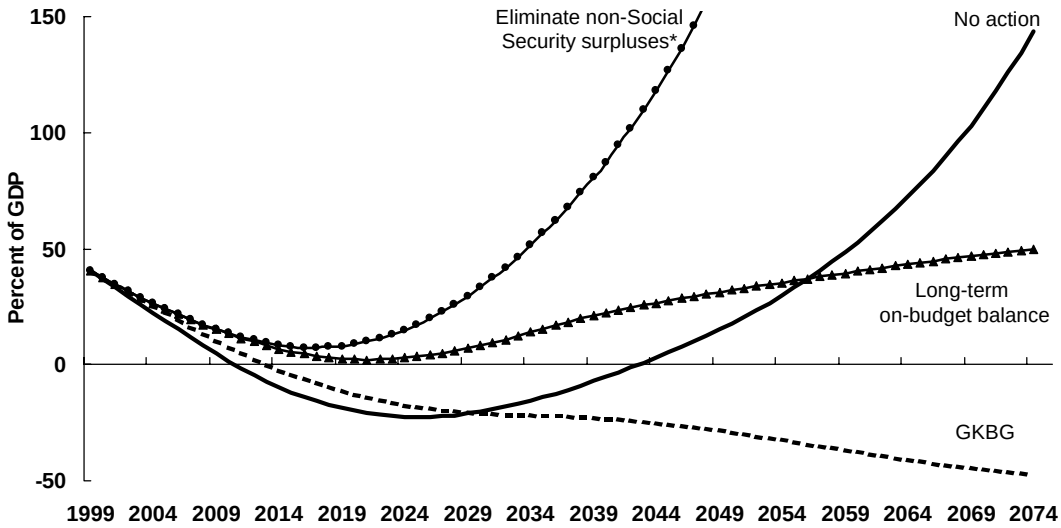
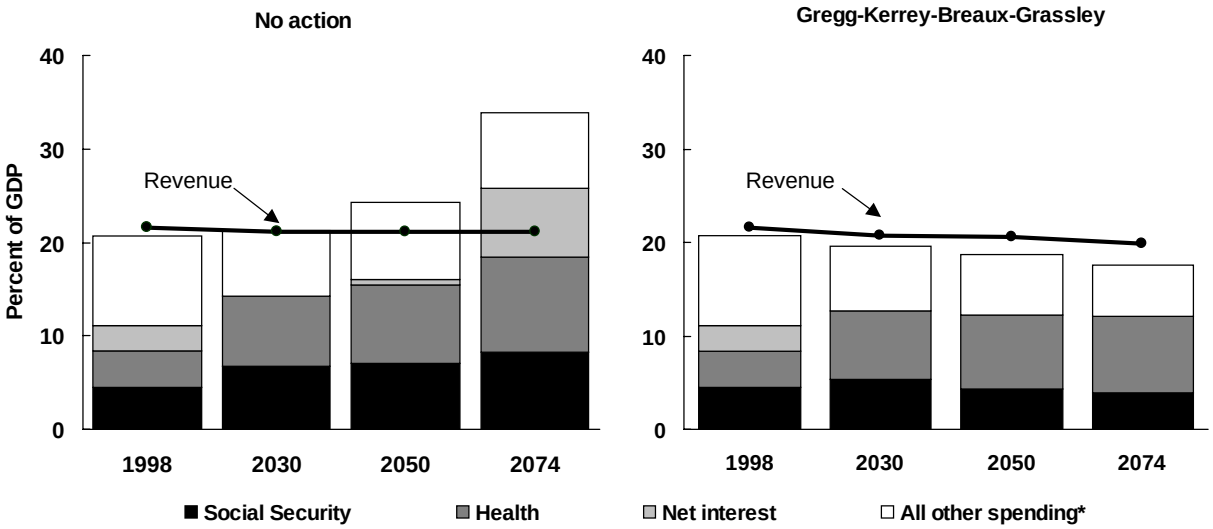
Figure 10: Gregg-Kerrey-Breaux-Grassley, S. 1383 Debt Held by the Public as a Share of GDP



*Data end when debt reaches 150 percent of GDP.

33

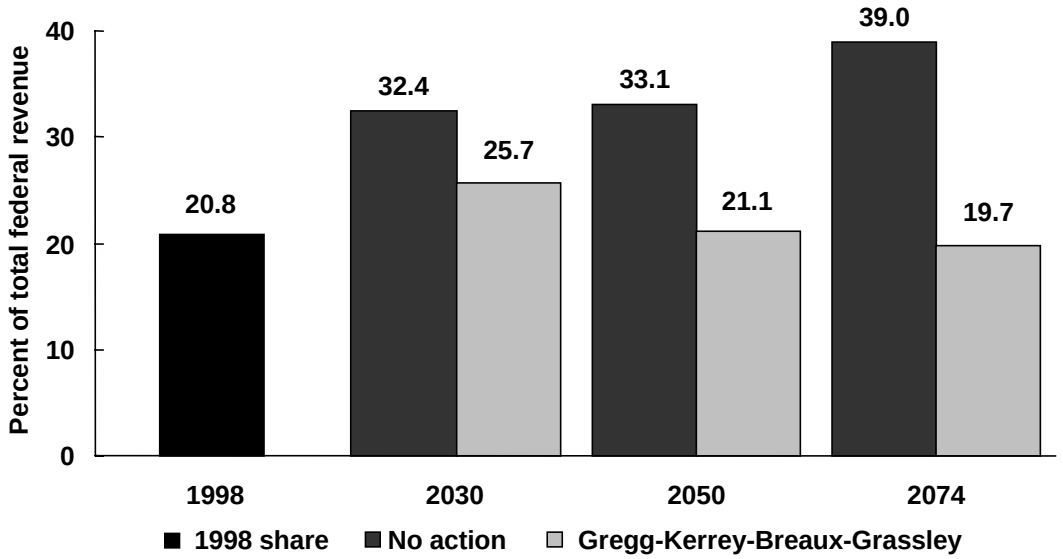
Figure 11: Composition of Spending as a Share of GDP in 1998 and Under No Action and Gregg-Kerrey-Breaux-Grassley



*All other spending includes offsetting interest receipts in 2030 under no action and in 2030, 2050, and 2074 under Gregg-Kerrey-Breaux-Grassley.
Note: Since a payroll tax carve-out reduces revenue, revenue under Gregg-Kerrey-Breaux-Grassley is net of the carve-out amount.

34

Figure 12: Social Security Spending as a Share of Total Federal Revenue in 1998 and Under No Action and Gregg-Kerrey-Breaux-Grassley



Note: Since a payroll tax carve-out reduces revenue, revenue under Gregg-Kerrey-Breaux-Grassley is net of the carve-out amount.

35

Gregg-Kerrey-Breaux-Grassley, S. 1383
Financing Sustainable Solvency

- National saving would increase primarily due to the improved fiscal position of the government resulting from the proposed benefit reductions. The carve-out and KidSave accounts would increase private saving and decrease government saving with no net effect on national saving. Saving subsidy for low-income workers could result in some increase in national saving.[1]
- Restores 75-year actuarial balance and produces trust fund ratio that at the end of the 75-year projection period is rising by about 20 percentage points per year.
- Finances individual accounts from payroll taxes. Government matching of voluntary contributions by low and middle income workers and KidSave accounts funded from general revenues. General revenue transfers in amounts reflecting COLA reductions are used to help finance Social Security benefits. Redirects all revenue from taxation of Social Security benefits to OASDI trust funds.
- Does not create contingent liabilities.
- Contains provision requiring SSA trustees to recommend statutory changes to the program in the event of unforeseen deterioration in Social Security solvency.

[1]Analysis limited to first order effects on saving. Effects on saving behavior in response to specific reform provisions are not considered given the lack of expert consensus.

36

Gregg-Kerrey-Breaux-Grassley, S. 1383
Balancing Adequacy and Equity

- Reduces current-law benefits by reducing the COLA, reducing “bend” points, increasing the NRA, and increasing the benefit computation period. There is a further offset based on government contributions to the individual account. Current and near-retirees are excluded from the reduction in the COLA.
- Dependent and survivor benefits could be affected by the changes to the NRA, the bend points, the COLA, and the benefit computation period.
- Disabled worker benefits could be affected by the changes to the bend points and the COLA.
- All workers under the age of 62 are covered by the proposal.
- Formula changes increase the progressivity of the OASDI benefit structure; however, overall progressivity of the system becomes unclear given other offsetting changes to the benefit structure. Individual account structure includes a government match that decreases with income.
- There is potential for higher returns on investments; the risk is borne by the individual.
- Workers have some investment choice, subject to certain limitations.
- The move to advanced funding of Social Security may improve intergenerational equity.

37

Gregg-Kerrey-Breaux-Grassley, S. 1383 Implementing and Administering Reforms

- Funding for implementation is not explicitly discussed. The bill provides no time frames for implementation.
- There is not enough information to allow an estimate of administrative costs.
- Financing structure of the system may be difficult to explain.
- The changes to the benefit structure may be difficult to explain. An education program will be necessary.
- The proposal establishes an Individual Savings Fund Board to oversee fund management.

38

Kasich

- Initial benefits are reduced from current law by indexing them to prices rather than wages as under current law.
- At worker's option, voluntary individual "carve-out" accounts equal to between 1 and 3.5 percent of taxable payroll, with higher percentages available to lower income earners.
- The transition period is financed by a loan from the general fund to the OASDI Trust Fund to ensure a contingency reserve. SSA actuaries estimate that if all workers participate in the individual account option, the Trust Fund would borrow from 2000 through 2045 and begin repaying in 2060 as the Trust Fund balance begins to grow.
- For workers choosing the account option, an additional benefit reduction is made at retirement to offset contributions to their accounts.

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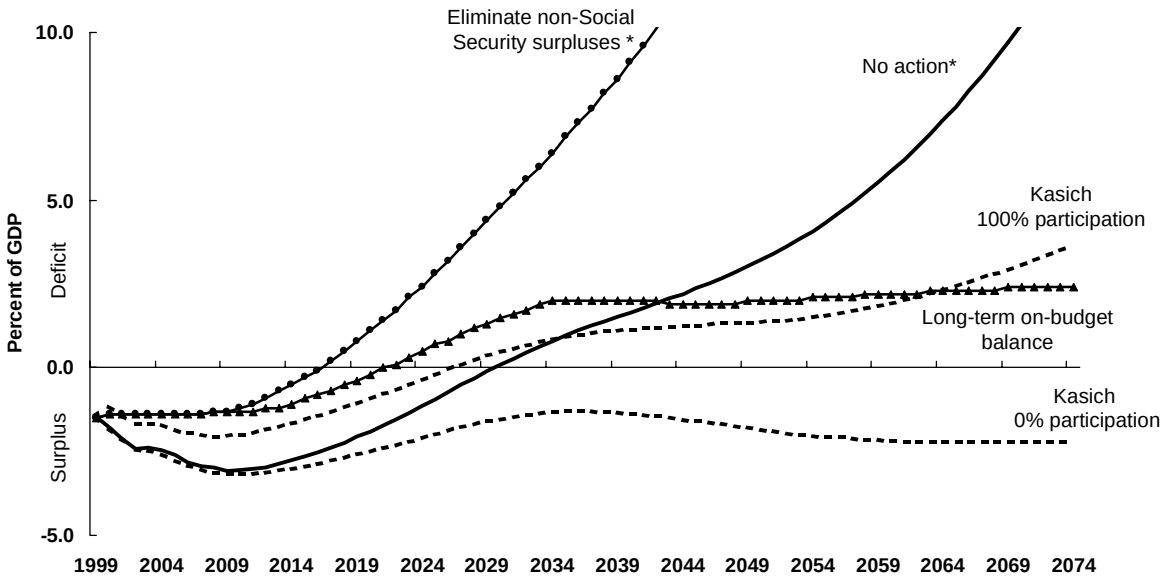
Kasich
Financing Sustainable Solvency

The effects of the Kasich proposal depend on assumed participation in the individual account option. SSA's actuaries analyzed the proposal assuming no participation (Kasich 0%) and universal participation (Kasich 100%). As illustrated in the following graphs, compared to No Action, the Kasich proposal:

- Under Kasich 0%, increases projected unified surpluses over the entire simulation period that average about 2 percent of GDP. Under Kasich 100%, projected unified surpluses are smaller and deficits larger through 2034; thereafter, projected unified deficits are significantly reduced. (Figure 13)
- Under Kasich 0%, permanently eliminates debt held by the public beginning in 2011 and the long-run financial position of the government is significantly improved. Kasich 100% results in higher debt held by the public through 2047 and then progressively lower debt levels compared to No Action. (Figure 14)
- Lowers the cost of Social Security as a share of GDP in 2030 by about 1 percentage point--about one sixth--under either assumption. Compared to No Action, the proposal cuts the cost of the program by slightly more than half by 2074. (Figures 15 and 16)
- Lowers Social Security spending as a share of federal revenues in 2030 by about 5 percentage points--a little more than one seventh--under either assumption. In 2074 program spending would consume about half as much of federal revenues as in No Action--or about the same share of federal revenues as today. (Figure 17)

40

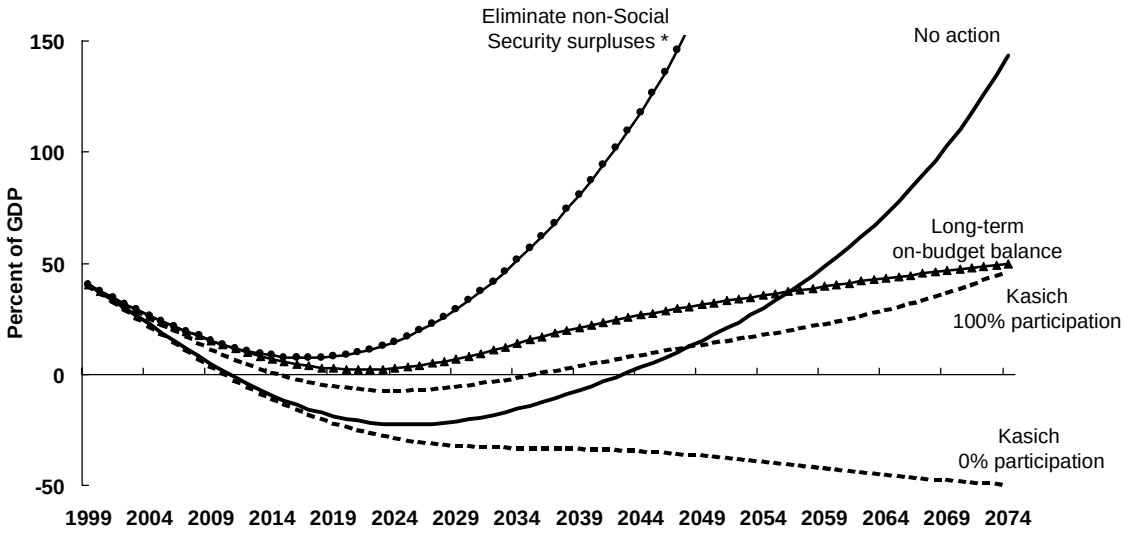
Figure 13: Kasich Unified Deficits/Surpluses as a Share of GDP



*Data end when deficits reach 10 percent of GDP.

41

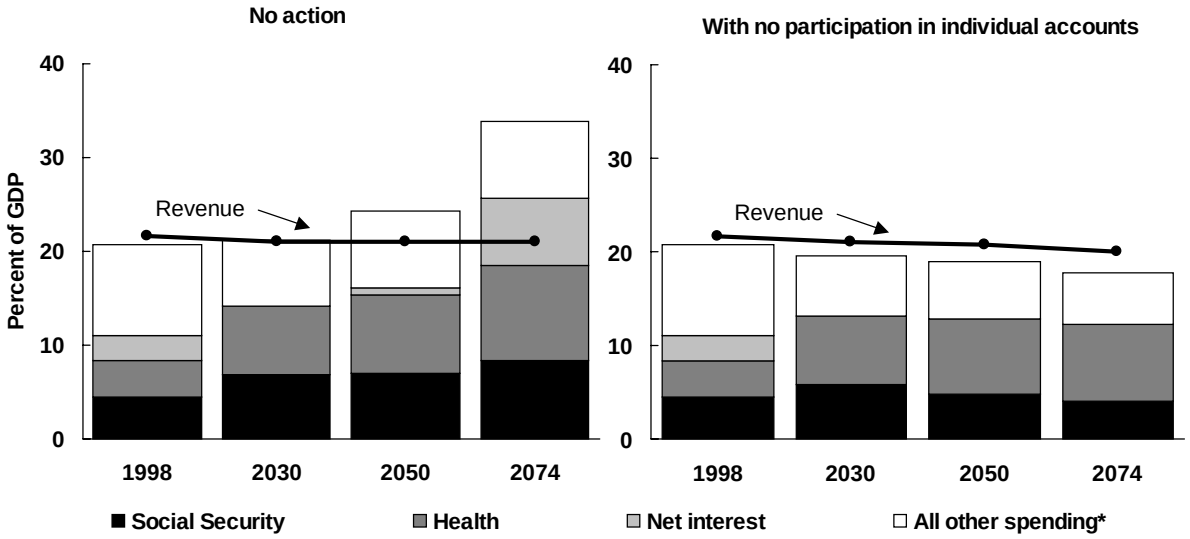
Figure 14: Kasich Debt Held by the Public as a Share of GDP



*Data end when debt reaches 150 percent of GDP.

42

Figure 15: Composition of Spending as a Share of GDP Under No Action and Kasich with No Individual Account Participation



*All other spending includes offsetting interest receipts in 2030 under no action and in 2030, 2050, and 2074 under Kasich 0%.

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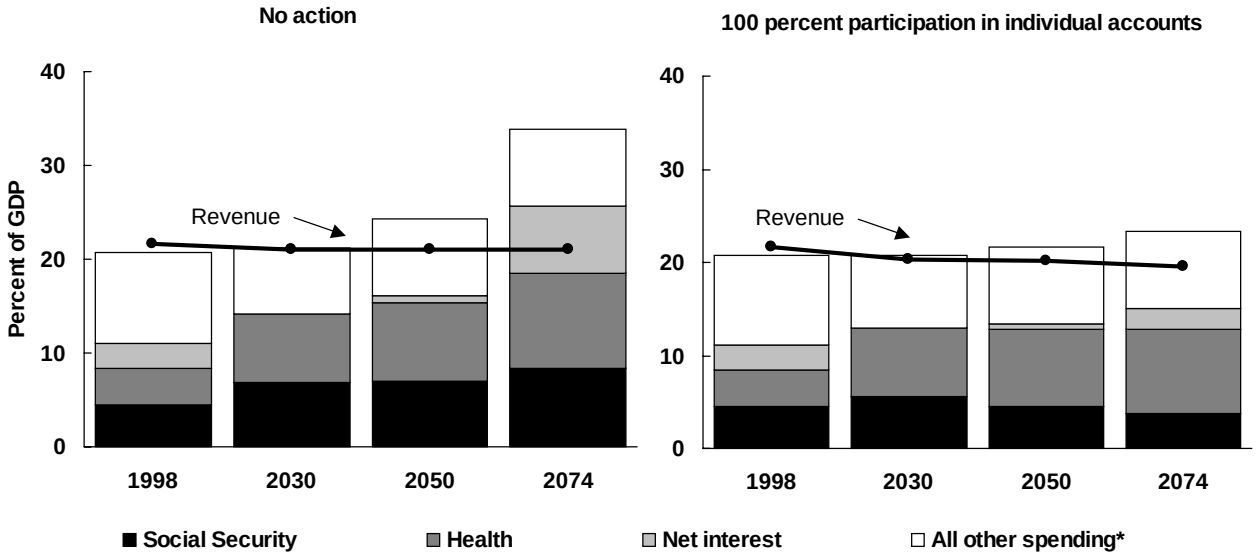
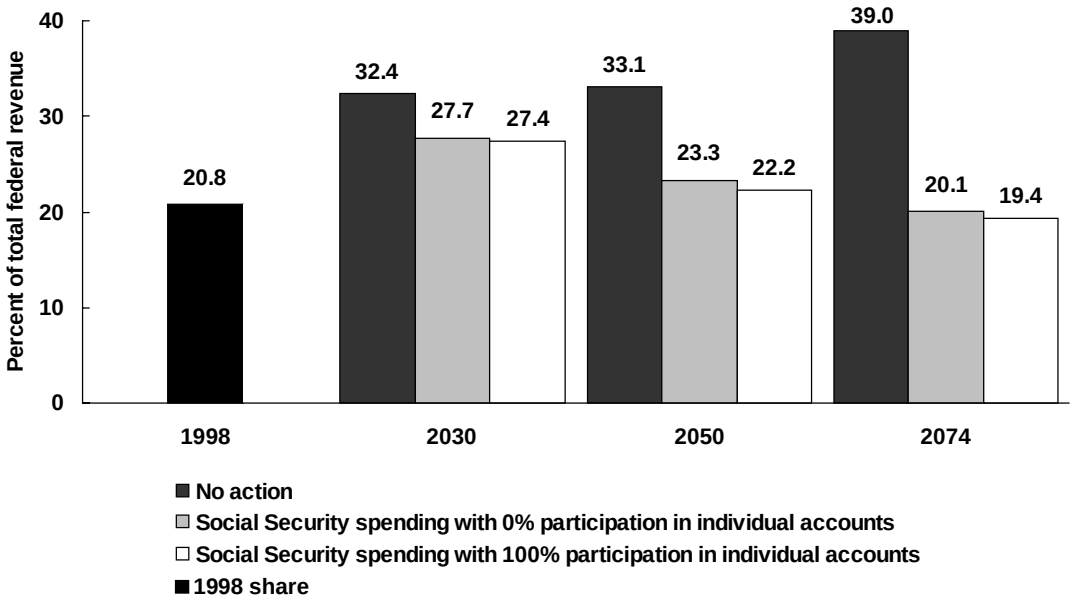
Figure 16: Composition of Spending as a Share of GDP Under No Action and Kasich With 100 Percent Participation in Individual Accounts



*All other spending includes offsetting interest receipts in 2030 under no action and in 2030 under Kasich 100%.
Note: Since a payroll tax carve-out reduces revenue, revenue under Kasich 100% is net of the carve-out amount.

44

Figure 17: Social Security Spending as a Share of Total Federal Revenue in 1998 and Under No Action and Kasich Reform Proposal



Note: Since a payroll tax carve-out reduces revenue, revenue under Kasich 100% is net of the carve-out amount.

45

Kasich
Financing Sustainable Solvency

- National saving would increase primarily due to the improved fiscal position of the government resulting from the proposed benefit reductions. The carve-out would increase private saving and decrease government saving with no net effect on national saving.[1]
- Restores 75-year actuarial balance under either assumption. The Kasich 0% produces a trust fund ratio at the end of the 75-year projection period that is rising by about 20 percentage points per year. Under the Kasich 100% assumption, the trust fund ratio stays at about 100 percent after 2060.
- Finances individual accounts from payroll taxes. General revenues are loaned to the trust fund to make up for the payroll tax revenue redirected to individual accounts. Repayment of loan begins in 2060 and extends beyond the 75-year period.
- Does not appear to create new contingent liabilities.
- Does not appear to contain "safety valves" to control future program growth.

[1]Analysis limited to first order effects on saving. Effects on saving behavior in response to specific reform provisions are not considered given the lack of expert consensus.

46

Kasich
Balancing Adequacy and Equity

- Reduces current-law benefits by reducing the rate of growth in the OASDI benefit level. A further reduction of OASDI benefits is proposed for workers who opt for an individual account. Near-retirees are not affected by the changes unless they choose an individual account.
- The reduction in the rate of growth of OASDI benefit levels would affect disabled, dependent, and survivor benefits, although reductions for disabled workers would be smaller.
- All workers born in 1946 or later are covered by the proposal.
- The progressivity of the OASDI benefit structure should remain unchanged. The proposal allows for individual contributions of between 1% and 3.5% depending on income level.
- There is potential for higher returns on investments; the risk is borne by the individual.
- Workers have some investment choice, subject to certain limitations.
- The move to advanced funding of Social Security may improve intergenerational equity.

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Kasich
Implementing and Administering Reforms

- Funding for implementation is not explicitly discussed. The proposal provides no time frames for implementation.
- There is not enough information to allow for an estimate of administrative costs.
- Financing structure of the system through a general fund loan may be difficult to explain.
- Changes to the benefit structure may be difficult to explain. An education program will be necessary.
- The proposal does not address the issue of preventing politically motivated investing.

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President's Social Security Transfer Proposal and USA Proposal

Universal Savings Accounts (USAs) considered separate from Social Security.[1]

Social SecurityTransfer Proposal:[2]

- No change in current-law benefit.
- Additional financing from general revenues. General fund transfers to OASDI begin in 2011 and continue through 2044. These transfers would make some currently implicit future Social Security funding obligations explicit.

USA Proposal:

- Individual accounts proposed, with workers receiving a flat annual general tax credit of a maximum of $300 annually and a 50-100% match on voluntary contributions. Both the credit and the matching rate would be reduced or eliminated for higher income earners. According to administration statements, total voluntary contributions could not exceed $1,000 annually, including government match.[1]
- Finances USAs and government match of voluntary contributions from general revenues by means of income tax credits.[1]

[1]Information in this sentence is based on administration statements made on April 14, 1999.
[2]The Strengthen Social Security and Medicare Act of 1999, transmitted to the Congress on October 26, 1999.

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President's Social Security Transfer Proposal and USA Proposal
Financing Sustainable Solvency

As illustrated in the following graphs, compared to No Action, the President's Social Security transfer proposal would:

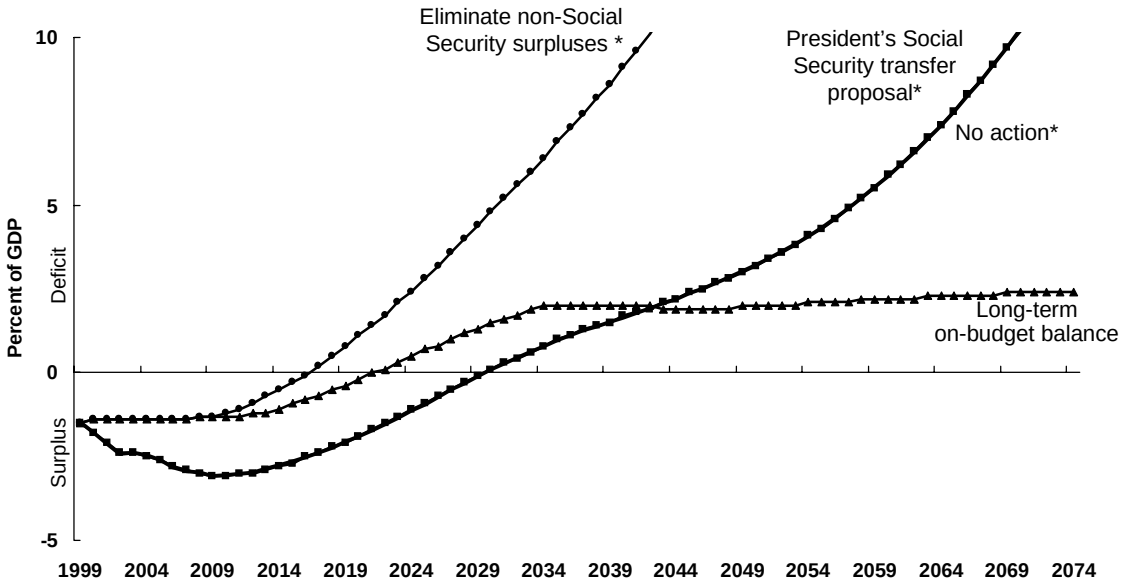
- Have no impact on projected unified surpluses or deficits. (Figure 18)
- Have no impact on debt held by the public. (Figure 19)
- Have no effect on Social Security spending as a share of GDP or federal revenues. (Figures 20 and 21)

In general, compared to No Action, the President's USA proposal would:

- Reduce projected unified surpluses and increase projected unified deficits.
- Increase debt held by the public.

50

Figure 18: President's Social Security Transfer Proposal (Excluding USAs) Unified Deficits/Surpluses as a Share of GDP



*Data end when deficits reach 10 percent of GDP.
Note: As noted in the text, the President's Social Security transfer proposal follows the no action path. Analysis is limited to the effects of the President's proposal for general revenue transfers to the OASDI trust funds. Sufficient data were unavailable to incorporate effects of the proposed USAs.

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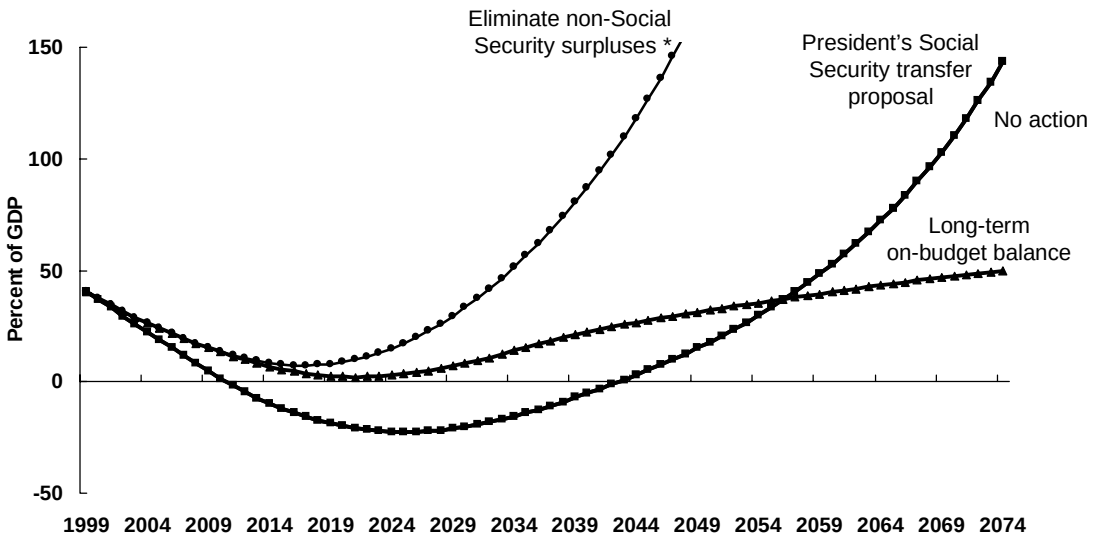
Figure 19: President's Social Security Transfer Proposal (Excluding USAs) Debt Held by the Public as a Share of GDP



*Data end when debt reaches 150 percent of GDP.
Note: As noted in the text, the President's Social Security transfer proposal follows the no action path. Analysis is limited to the effects of the President's proposal for general revenue transfers to the OASDI trust funds. Sufficient data were unavailable to incorporate effects of the proposed USAs.

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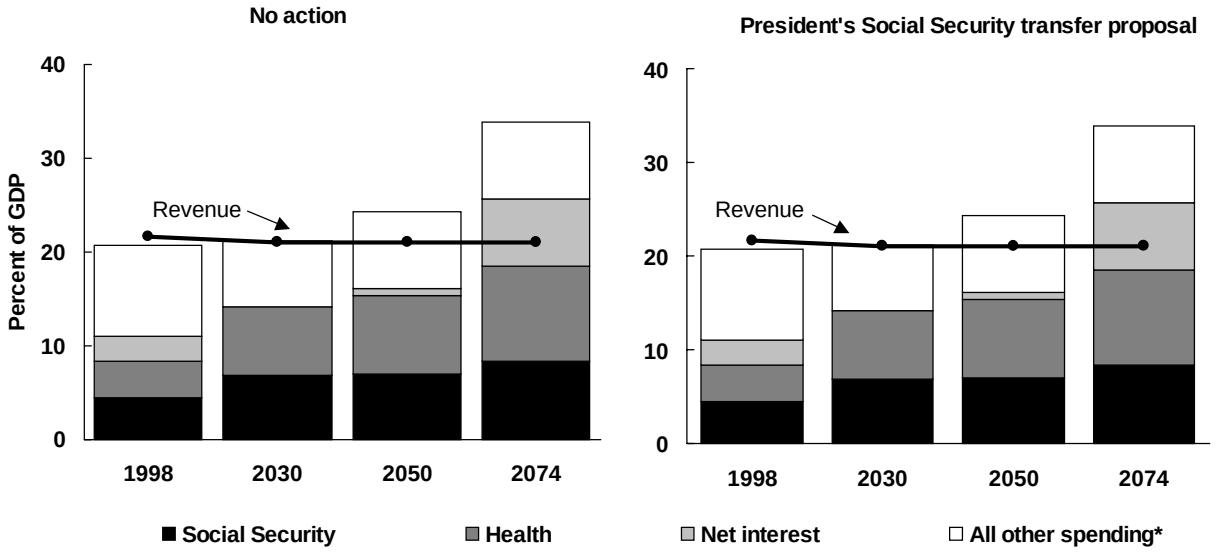
Figure 20: Composition of Spending as a Share of GDP in 1998 and Under No Action and the President's Social Security Transfer Proposal (Excluding USAs)



*All other spending includes offsetting interest receipts in 2030 under no action and the President's transfer proposal.
Note: Analysis is limited to the effects of the President's proposal for general revenue transfers to the OASDI trust funds. Sufficient data were unavailable to incorporate effects of the proposed USAs.

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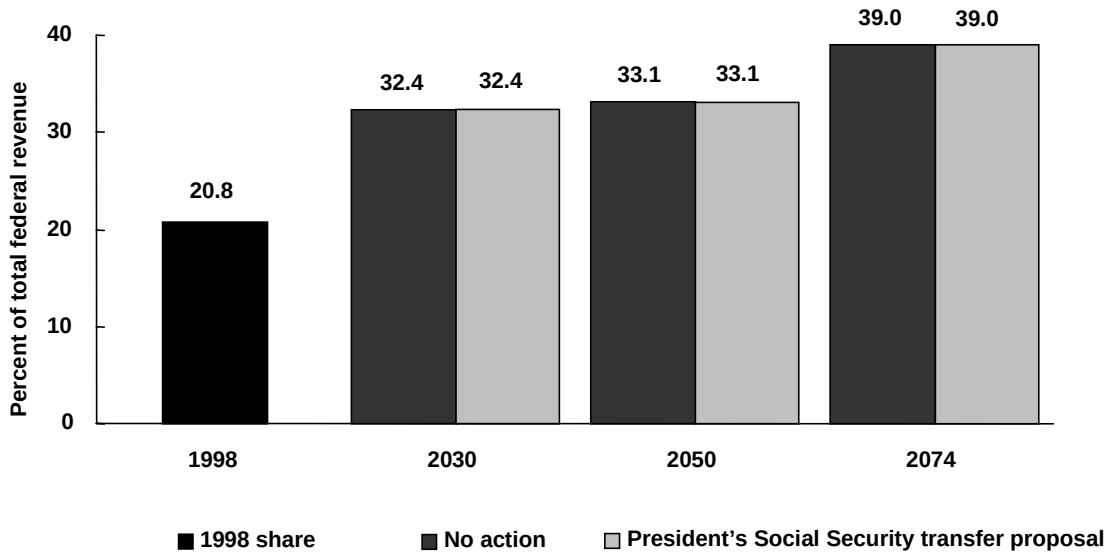
Figure 21: Social Security Spending as a Share of Total Federal Revenue in 1998 and Under No Action and the President's Social Security Transfer Proposal (Excluding USAs)



Note: Analysis is limited to the effects of the President's proposal for general revenue transfers to the OASDI trust funds. Sufficient data were unavailable to incorporate effects of the proposed USAs.

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President's Social Security Transfer Proposal and USA Proposal
Financing Sustainable Solvency

Social Security Transfer Proposal:

- Does not address sustainable solvency. Reduces the OASDI trust funds' actuarial deficit by 0.91 percent of taxable payroll but does not restore 75-year actuarial balance. According to the SSA actuaries, the proposal extends the solvency of the trust funds until 2050.
- Uses general revenue to pay a portion of current-law benefits and extend trust fund solvency.
- Does not create contingent liabilities.
- Contains no new "safety valves" to control future program growth.

55

President's Social Security Transfer Proposal and USA Proposal
Financing Sustainable Solvency

USA Proposal:

- General tax credit for Universal Saving Accounts (USAs) would increase private saving and reduce government saving with no net effect on national saving. The incentive provided by the government match of voluntary contributions to USAs could result in some increase in national saving.[1]
- Finances USAs and government match of voluntary contributions from general revenues by means of income tax credits.

[1]Analysis limited to first order effects on saving. Effects on saving behavior in response to specific reform provisions are not considered given the lack of expert consensus.

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President's Social Security Transfer Proposal and USA Proposal
Balancing Adequacy and Equity

Social Security Transfer Proposal:

- Maintains current-law benefits for current and future retirees, including low-income workers and others most reliant on Social Security.
- There are no changes to disabled, dependent, or survivor benefits.
- No change from the current OASDI structure in the way workers are covered.
- No change in the progressivity of the OASDI benefit structure.
- Does not address intergenerational equity issues.

57

President's Social Security Transfer Proposal and USA Proposal
Balancing Adequacy and Equity

USA Proposal:

- A USA is established for each worker with family earnings of at least $5,000 annually.[1]
- Progressivity is built into the USA structure through a government match. Low-income workers get a one-to-one match to their contributions, while higher income workers receive a lower percentage match or none at all.[1]
- Individuals would earn market returns but would bear the risk.
- Workers have some investment choice, subject to certain limitations.
- To the degree that USAs increase individual retirement savings, intergenerational equity may improve.

[1]Information in this sentence is based on administration statements made on April 14, 1999.

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President's Social Security Transfer Proposal and USA Proposal
Implementing and Administering Reforms

Social Security Transfer Proposal:

- No new implementation costs for the current Social Security program.
- Current Social Security program has administrative costs of less than 1% of benefit outlays.
- Financing structure of the transfer proposal may be difficult to explain.
- Benefits structure of Social Security does not change.

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President's Social Security Transfer Proposal and USA Proposal
Implementing and Administering Reforms

USA Proposal:

- The USA proposal does not discuss funds for implementation.
- There is not enough information to allow an estimate of USA administrative costs.
- An education program will be necessary to explain the contribution and matching funds structure of the USA.
- Not enough information to assess whether the USA proposal would address the issue of preventing politically motivated investing.

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Evaluating Social Security Reform Proposals Conclusion

- A proposal's ability to achieve and sustain solvency is sensitive to economic and budgetary assumptions.
- All proposals present trade-offs between unified budget results and benefit levels.
- Proposals that guarantee benefits place the risk of financing those benefits on the government. Proposals that provide more choice and control to individuals may place individual benefits at greater financial risk.
- In any reform proposal, attention must be paid to the impact on poverty among the elderly.
- None of the proposals fully address implementation and administrative issues.

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Attachment I: No Action Model Assumptions

Model Inputs	Assumptions
Unified surplus/deficit	CBO through 2008; GAO simulations thereafter
Social Security spending (OASDI)	1999 Social Security Trustees' Intermediate projections
Medicare spending (HI and SMI)	1999 Medicare Trustees' Intermediate projections
Medicaid spending	CBO's projections
Other mandatory spending	CBO's assumed levels through 2008; thereafter, increases at the rate of economic growth (i.e., remains constant as a share of GDP)
Discretionary spending	CBO through 2008; thereafter, increases at the rate of economic growth
Receipts	CBO's assumed levels through 2008; in subsequent years, receipts held constant at 21.1% of GDP (ratio) in 2008
Saving rate: gross saving of the private sector and state and local government sector	17.4%
Share of gross national saving that flows abroad	33.3%
Labor: growth in hours worked	1999 Social Security Trustees' Intermediate projections
Total factor productivity growth	1.1%
Inflation (GDP price index)	CBO through 2009; 1.9% thereafter (CBO's projection in 2009)
Interest rate (average on the national debt)	Average rate implied by CBO's interest payment projections through 2008; 5.6% thereafter (CBO's implied rate in 2008)

Note 1: These assumptions apply to our base simulation, no action. For alternative fiscal policy simulations, certain assumptions are varied, which are noted in the discussion of the alternative paths.
Note 2: In our work, all CBO budget projections were converted from a fiscal year to a calendar year basis. The last year of CBO's projection period is fiscal year 2009, permitting the calculations of calendar year values through 2008.

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