

Comparison of CSSS Model 2 and Diamond-Orszag Proposals

Issue	CSSS Model 2	Diamond-Orszag
Personal Accounts	Voluntary; those electing personal accounts would divert up to 4% of earnings to personal account, up to \$1,000 annually. Traditional benefits offset by account contributions plus 2% interest.	No
Taxes	No change; requires “temporary“ transfer from general fund	Higher payroll tax rate for all earners; higher taxable wage base; new surtax on earnings above wage base. According to the CBO, from 2023 through 2079, the rate would grow by 0.26 percent a year. In addition, in every year beginning in 2012, the rate would grow by an amount determined by future increases in life expectancy. On net, the rate would increase from 12.4 percent of taxable earnings today to 12.7 percent in 2025 and 13.9 percent in 2050. In 2075, the rate would be 15 percent, 22 percent higher than the current level.
Benefits	Initial benefits to future retirees indexed to prices rather than wages, lowering benefit growth over time.	Benefits reduced mostly for higher-wage earners
Mandatory coverage for newly hired state & local government workers	No	Yes
Benefit enhancements for lower wage workers and surviving spouses	Yes	Yes
Involves transition costs	Yes	No
Congressional Budget Office estimate of effect on GDP	Higher by 0.5% in 2025; higher by 3% to 4% by 2080, due chiefly to higher savings rates	Lower by 0.7% to 0.8% in 2025; lower by 1.5% to 1.7% by 2080, due chiefly to higher tax rates
Retirement age	No change	No change, although future benefits would be reduced based on longevity improvement
Funding approach	Combines current pay-as-you-go structure with pre-funded personal accounts	Maintains current pay-as-you-go structure

CSSS is the President’s Commission to Strengthen Social Security. Model 2 is one of three CSSS proposals for Social Security reform and the proposal apparently favored by the Bush Administration. Diamond-Orszag is named for the proposal, *Saving Social Security: A Balanced Approach*, authored by Peter Diamond of MIT and Peter Orszag of the Brookings Institution.