



National Association of State Retirement Administrators

Issue Brief Recommendations of the President's Commission to Strengthen Social Security

What is the CSSS?

The President's Commission to Strengthen Social Security (CSSS) is a 16-member bipartisan group appointed by President Bush in May 2001. Commission members include eight Democrats and eight Republicans and have a range of backgrounds and experience, including government, industry, and academia.

The Commission was charged with providing "recommendations for modernizing and restoring fiscal soundness to the Social Security System according to the following principles:

- modernization must not change Social Security benefits for retirees or near retirees;
- the entire Social Security surplus must be dedicated to Social Security only;
- Social Security payroll taxes must not be increased;
- the Government must not invest Social Security funds in the stock market;
- modernization must preserve Social Security's disability and survivors components;
- and modernization must include individually controlled, voluntary personal retirement accounts, which will augment the Social Security safety net."

The Commission released its report in December 2001. Events following 9/11/01 and the 2004 presidential campaign, resulted in the report receiving little attention until the after November 2004 election. According to its charter, the commission terminated 30 days after issuing its final report.

What's in the Report?

The commission's final report presents a series of findings and three recommendations in the form of models. Each model features a traditional Social Security benefit and a voluntary personal retirement account.

Personal accounts would be owned by the individual participant and could be bequeathed to heirs. The report assumes that accumulations in personal accounts will be used to purchase variable annuities at retirement. Under each model, the report says, future retirees can expect to receive benefits that are at least as high as those received by today's retirees, even after adjusting for inflation. This assertion relies on attainment of minimum rates of investment return in personal accounts.

Each model requires additional funding to cover transitional costs associated with the conversion to personal accounts.

The report makes no recommendation regarding mandatory coverage for state and local government employees.

In an analysis of the reform models, Congress's General Accountability Office states:

- "Model 1 does not change the defined benefit and does not restore solvency; Models 2 and 3 restore solvency through a combination of changes in the initial benefit calculation, general revenue transfers, and/or benefit offsets for those who choose to participate in the individual account option.

- Account contribution amounts, benefit offset in exchange for account participation, and calculation of an individual's initial benefit differ among the three models.
- All models share a common framework for administering accounts.”

Model 1 is characterized in the report as *Voluntary Personal Account and Offset, Combined with No Change to Traditional Social Security System*. This is the most simple of the three models: this plan permits workers to direct 2 percent of their earnings to a personal account, and reduces benefits under the current structure by 3.5 percent compounded annually. Workers who elect to have a personal account would need to earn 3.5 percent above the inflation rate to break even relative to the current benefit structure. Model 1 does not specify other changes to Social Security benefits.

Model 2 is labeled in the report as *Voluntary Progressive Personal Accounts Combined with an Inflation-Indexed but More Progressive Traditional System*. This model has received the most attention from policymakers and it appears to be the proposal favored by President Bush. According to this model, workers who are under age 55 upon program inception may direct 4 percent of their first \$25,000 in earnings, up to \$1,000 annually, to a personal account. (The maximum contribution is indexed annually to wage growth). No additional contribution from the worker would be required. The remaining Social Security contribution would continue to fund current and future benefits.

In exchange for the personal account, traditional Social Security benefits would be reduced by the worker's personal account contributions compounded at an interest rate of 2 percent above inflation. According to the report, “any return greater than 2.0% on the personal account would result in a benefit that is greater than what the participant would receive under current system.”

The \$1,000 limit makes Model 2 personal accounts progressive: a worker earning \$25,000 would be contributing 4 percent of his wages to his personal account, compared to a worker earning \$50,000, who would be contributing 2 percent.

Model 2 phases out wage-indexation of the current Social Security benefit formula and replaces it with a CPI-based index. Because wages generally grow faster than the rate of inflation, expressed by the CPI, this change slows the growth in future benefits.

Model 2 recommends that traditional Social Security benefits be made more progressive by raising benefit levels for lower-income workers to a minimum of 120 percent of the poverty rate. These higher benefits would be funded by reducing benefits for upper-income workers. Model 2 also raises benefits for widows and widowers.

Model 3 is identified as *Voluntary Add-On Accounts with Matches from Payroll Taxes Overlaying a Traditional System Balanced with a Blend of Revenue and Outlay Changes*. This model allows workers to contribute an additional 1 percent of pay, above the current rate of 6.2 percent, to a personal account. The 1 percent contribution would be matched by 2.5 percent diverted from the Social Security payroll tax, up to \$1,000 annually. Traditional benefits would be reduced by 2.5 percent annually above the rate of inflation. The report states, “Even if individuals invested only in government bonds returning 3 percent, their total retirement benefits will likely increase due to the accounts.”

As with Model 2, Model 3 also would make traditional Social Security benefits more progressive by raising benefit levels for low-income earners and reducing benefits for higher-income earners. Model 3 raises minimum benefit levels to 100 percent of the poverty rate. Also as with Model 2, Model 3 raises benefits for widows and widowers.

To promote the long-term solvency of the Social Security program, Model 3 calls for increased revenue “starting at 0.34 percent of program taxable payroll, rising to 0.86 percent of taxable payroll by 2075, and averaging 0.63 percent throughout the 75-year valuation period. Congress would be able to choose from a variety of sources for making such revenues available to the Social Security system.”

Personal Account Investment Options

Referring to personal accounts under all models, the report states, “Initially, available investment choices would be limited to a first tier of options that would include several broad index funds (equity, government bonds, and corporate and other bonds) plus several balanced funds. After several years, the board of the central authority would expand the options to include a second tier for individuals who had accumulated some threshold amount in their account. The second tier, still managed centrally, would offer a range of funds provided by approved private investment firms. The worker would select an investment firm and the funds offered by that firm. For both tiers, the central authority would maintain individual account records and would combine account transactions in aggregate amounts when dealing with the private investment firms.”

This brief is for information only and does not represent an endorsement of any policy or proposal.

Additional Resources:

- President’s Commission to Strengthen Social Security:
<http://www.commtostrengthenocsec.gov/>
- AARP Social Security Page: <http://www.aarp.org/socialsecurity/>
- The Cato Institute’s Project on Social Security: <http://www.socialsecurity.org/>
- The Brookings Institution page on Social Security, Pensions and Retirement:
<http://www.brookings.edu>, go to Research Topics, then Social Policy, then Social Security, Pensions and Retirement