

105TH CONGRESS
2D SESSION

H. R. 3560

To amend title II of the Social Security Act and the Internal Revenue Code of 1986 to provide for a pilot program for personalized retirement security through personal retirement savings accounts to allow for more control by individuals over their Social Security retirement income, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 26, 1998

Mr. SMITH of Michigan introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend title II of the Social Security Act and the Internal Revenue Code of 1986 to provide for a pilot program for personalized retirement security through personal retirement savings accounts to allow for more control by individuals over their Social Security retirement income, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Social Security Solvency Pilot Program Act of 1998”.

6 (b) TABLE OF CONTENTS.—

- Sec. 1. Short title and table of contents.
- Sec. 2. Findings and purposes.
- Sec. 3. Establishment of individual retirement security program.
- Sec. 4. Reduction in appropriations to the Trust Funds.
- Sec. 5. Adjustments to primary insurance amounts under part A of title II of the Social Security Act.
- Sec. 6. Personal retirement savings accounts.
- Sec. 7. Interim and final reports.
- Sec. 8. Investment of social security trust funds in marketable securities during fiscal year 1999.

1 **SEC. 2. FINDINGS AND PURPOSES.**

2 (a) FINDINGS.—The Congress makes the following
3 findings:

4 (1) One of America’s most popular Government
5 programs, Social Security, is in jeopardy. The 1997
6 Board of Trustee’s report states that the current
7 system faces an actuarial deficit of 2.23 percent of
8 taxable payroll. According to the 1997 Board of
9 Trustee’s report, the Social Security trust fund will
10 begin to run a deficit by 2011 and will be exhausted
11 by 2029.

12 (2) Helping assure Americans retirement secu-
13 rity is a major national goal.

14 (3) The Congress should strengthen Social Se-
15 curity to ensure Americans retirement security. The
16 changes made to strengthen Social Security
17 should—

18 (A) create a solvent Social Security sys-
19 tem,

1 (B) maintain or increase total retirement
2 benefits for current and future retirees,

3 (C) avoid payroll tax increases, and

4 (D) avoid additional Federal debt as a
5 means of financing Social Security.

6 (4) The root causes of the weaknesses in the
7 present Social Security system are its inadequate
8 funding mechanism and changing demographics. So-
9 cial Security was designed in 1935 as a pay-as-you-
10 go system, in which current workers supported cur-
11 rent retirees. This design worked when America had
12 42 workers per beneficiary in 1945, but that ratio
13 has fallen over time. In 1995 there are only 3.3
14 workers per beneficiary, and by 2060 the ratio is
15 projected to fall to 1.8 workers per beneficiary. To
16 pay benefits to the rising number of retirees, the
17 Government has levied increasing payroll taxes on
18 workers. To maintain the program in its current
19 form, the Government will have to continue to raise
20 payroll taxes or substantially reduce benefits.

21 (5) The key to a more secure Social Security
22 system is increased savings and private investment.
23 We should move from a financing system based on
24 the Federal Government's power to tax workers to

1 one based on savings and investment accounts
2 owned and controlled by workers.

3 (6) Allowing workers to take advantage of high-
4 er investment returns will increase their income in
5 retirement. Over the last 100 years, the stock mar-
6 ket has earned roughly 7 percent after inflation
7 compared to a yield of 1.5 to 2 percent after infla-
8 tion projected by the Social Security Administration
9 for workers' payroll taxes. The difference is enor-
10 mous. For example, \$1,000 invested for 50 years at
11 2 percent becomes nearly \$2,700. The same amount
12 invested for 50 years at 7 percent becomes nearly
13 \$30,000.

14 (b) PURPOSES.—The purpose of this Act is to estab-
15 lish a pilot program which may serve as the basis for
16 future legislation for the following purposes:

17 (1) To give workers and retirees more owner-
18 ship and control over their retirement savings.

19 (2) To improve the living standards of future
20 retirees by allowing them to take advantage of low-
21 risk investment opportunities that earn higher re-
22 turns than those they can expect to realize under the
23 current Social Security system.

1 (3) To stimulate the American economy by in-
 2 creasing savings and investment leading to higher
 3 productivity, more jobs, and better wages.

4 (4) To ensure the solvency of the Social Secu-
 5 rity system while maintaining an adequate reserve in
 6 the Social Security trust fund.

7 **SEC. 3. ESTABLISHMENT OF INDIVIDUAL RETIREMENT**
 8 **PROGRAM.**

9 (a) IN GENERAL.—Title II of the Social Security Act
 10 is amended—

11 (1) by inserting before section 201 the follow-
 12 ing:

13 “PART A—INSURANCE BENEFITS”;

14 and

15 (2) by adding at the end the following new part:

16 “PART B—INDIVIDUAL RETIREMENT SECURITY
 17 PROGRAM

18 “DEPOSITS TO PERSONAL RETIREMENT SAVINGS

19 ACCOUNTS

20 “SEC. 251. (a) IN GENERAL.—Subject to this part,
 21 within 10 business days after receipt during any fiscal
 22 year of taxes paid under sections 3101(a) and 3111(a) of
 23 the Internal Revenue Code of 1986 with respect to a cov-
 24 ered employee, and within 10 business days after receipt
 25 during any fiscal year of taxes paid under section 1401(a)

1 of such Code with respect to a covered self-employed indi-
2 vidual, the Secretary of the Treasury shall deposit, from
3 amounts otherwise available in the general fund of the
4 Treasury, into—

5 “(1) such personal retirement savings accounts
6 as are designated under section 252(c) with respect
7 to such employee or individual, and

8 “(2) such personal retirement savings accounts
9 as are designated under section 252(c) with respect
10 to any other covered employee or covered self-em-
11 ployed individual (if any) who is the spouse of the
12 employee or individual referred to in paragraph (1),
13 a total amount equal to 2.5 percent of the wages and self-
14 employment income with respect to which such taxes were
15 determined. In any case in which there are accounts des-
16 ignated with respect to a spouse as described in paragraph
17 (2), 50 percent of such total amount shall be deposited into
18 accounts described in paragraph (1) and the remainder
19 shall be deposited into accounts described in paragraph
20 (2). Any amount deposited into 2 or more accounts under
21 paragraph (1) or (2) shall be distributed among accounts
22 in such manner as may be specified in connection with
23 their designation.

24 “(b) CORRECTIONS.—The Secretary of the Treasury
25 shall provide by regulation for a procedure for corrections

1 of erroneous deposits under subsection (a), including pro-
 2 vision for adequate notice and opportunity for hearing.

3 “COVERED EMPLOYEES AND COVERED SELF-EMPLOYED
 4 INDIVIDUALS

5 “SEC. 252. (a) COVERED EMPLOYEE.—Subject to
 6 subsections (d) and (e), the term ‘covered employee’
 7 means, in connection with any person who is a covered
 8 employer for any calendar year beginning after December
 9 31, 1998, any individual—

10 “(1) with respect to whose employment by such
 11 employer during such calendar year there is imposed
 12 an excise tax under section 3111 of the Internal
 13 Revenue Code of 1986,

14 “(2) who files with the Board of Trustees, on
 15 or after November 30, 1998, and before February 1,
 16 1999, and in such form and manner as shall be pre-
 17 scribed in regulations of the Board, an election de-
 18 scribed in subsection (c), and

19 “(3) who, as of the date of the filing of the elec-
 20 tion pursuant to subsection (c), has attained age 16
 21 but has not attained age 21.

22 “(b) COVERED SELF-EMPLOYED INDIVIDUAL.—Sub-
 23 ject to subsections (d) and (e), the term ‘covered self-em-
 24 ployed individual’ means any individual—

25 “(1) on whose self-employment income for a
 26 taxable year beginning after December 31, 1998,

1 there is imposed a tax under section 1401(a) of the
2 Internal Revenue Code of 1986,

3 “(2) who files with the Board of Trustees, on
4 or after November 30, 1998, and before February 1,
5 1999, and in such form and manner as shall be pre-
6 scribed in regulations of the Board, an election de-
7 scribed in subsection (c), and

8 “(3) who, as of the date of the filing of election
9 pursuant to subsection (c), has attained age 16 but
10 has not attained age 21.

11 “(c) ELECTIONS.—An individual’s election referred
12 to in subsection (a)(2) or (b)(2) shall consist of a signed
13 declaration of such individual’s intention to be treated as
14 a covered employee with respect to wages paid to such in-
15 dividual and a covered self-employed individual with re-
16 spect to self-employment income derived by such individ-
17 ual, together with a signed designation by such individual
18 of one or more personal retirement savings accounts to
19 which deposits with respect to the individual are to be
20 made under section 251. Elections under this section by
21 individuals who have not attained age 18 shall be made
22 by such individual’s parent or legal guardian. Any election
23 under this section shall be irrevocable, subject to sub-
24 sections (d) and (e).

1 “(d) NUMERICAL LIMIT BASED ON PROJECTIONS OF
2 BUDGET SURPLUS FOR FISCAL YEAR 1999.—

3 “(1) PROJECTED LIMITATION.—Not later than
4 February 1, 1999, the Secretary of the Treasury,
5 employing reasonable assumptions, shall project and
6 publish in the Federal Register the number to which
7 the total number of covered employees and covered
8 self-employed individuals would be required to be
9 limited as of such date in order to preclude the total
10 amount deposited in personal retirement savings ac-
11 counts pursuant to section 251(a) for fiscal year
12 1999 from exceeding an amount equal to the surplus
13 in the total budget of the United States Government
14 for fiscal year 1998.

15 “(2) RESTRICTION ON PARTICIPATION TO
16 ACHIEVE PROJECTED LIMITATION.—If the total
17 number of individuals who have filed elections under
18 this section as of February 1, 1999, exceeds the
19 number projected under paragraph (1), then the
20 terms ‘covered employee’ and ‘covered self-employed
21 individual’ shall exclude any individual who, as of
22 such date, has attained an age greater than the age
23 attained as of such date by the oldest of such pro-
24 jected number of the youngest individuals who have
25 filed such elections as of such date.

1 “(e) TERMINATION OF STATUS.—Any individual who
2 is a covered employee or a covered self-employed individual
3 as defined in the preceding provisions of this paragraph
4 shall cease to be such a covered employee or covered self-
5 employed individual on February 1, 2009.

6 “PERIODIC REPORTS BY ACCOUNT TRUSTEE

7 “SEC. 253. (a) IN GENERAL.—The trustee of a per-
8 sonal retirement savings account shall make periodic re-
9 ports concerning the status of the account which shall
10 meet the requirements of section 408B(g)(2) of the Inter-
11 nal Revenue Code of 1986 and of this section. Each peri-
12 odic report shall be furnished to the account holder on
13 at least a semiannual basis on or before the 30th day fol-
14 lowing the period for which the report is required.

15 “(b) INFORMATION REQUIRED TO BE INCLUDED.—
16 The periodic report shall contain the following information
17 for transactions occurring during the period for which the
18 report is provided:

19 “(1) The balance in the account.

20 “(2) The amount of authorized personal retire-
21 ment savings account contributions.

22 “(3) The earnings on the account balance, ex-
23 pressed in terms of dollar amounts and as a percent-
24 age return on investment.

25 “(4) The amount of distributions.

26 “(5) The name and address of the trustee.

1 “(6) Commission fees and fees for administra-
2 tive expenses charged in connection with the ac-
3 count.

4 “(7) Other information which may be required
5 from time to time by the Board of Trustees.

6 The language of the report shall be written in a form so
7 as to be understood by the average covered employee.

8 “(c) REPORTS TO BOARD OF TRUSTEES.—The
9 Board of Trustees may require the periodic report to be
10 filed with the Board at such time as the Board may speci-
11 fy in regulations under this section.

12 “(d) FAILURE BY TRUSTEE TO MAKE TIMELY PERI-
13 ODIC REPORTS.—

14 “(1) IN GENERAL.—The trustee of a personal
15 retirement savings account shall be subject to a civil
16 penalty of not to exceed \$100 a day from the date
17 of such trustee’s failure or refusal to furnish the
18 periodic report required to be furnished by the trust-
19 ee under this section until the date on which such
20 report is furnished.

21 “(2) PENALTIES ASSESSED BY BOARD OF
22 TRUSTEES.—Any civil penalty assessed by this sub-
23 section shall be imposed by the Board of Trustees
24 and collected in a civil action. The Board of Trust-
25 ees may compromise the amount of any civil penalty

1 imposed by this subsection. The Board of Trustees
2 may waive the application of this subsection with re-
3 spect to any failure if the Board of Trustees deter-
4 mines that such failure is due to reasonable cause
5 and not to intentional disregard of rules and regula-
6 tions.

7 “AVAILABILITY OF FUNDS FOR DEPOSITS

8 SEC. 254. (a) AMOUNTS AVAILABLE FROM GENERAL
9 FUND.—Subject to such additional appropriations as may
10 be enacted pursuant to subsection (b)—

11 “(1) for fiscal year 1999, there shall be avail-
12 able, for deposits into personal retirement savings
13 accounts pursuant to section 251(a) for such fiscal
14 year, an amount equal to the surplus in the total
15 budget of the United States Government for fiscal
16 year 1998, and

17 “(2) for each fiscal year after fiscal year 1999
18 and before fiscal year 2004, there shall be available,
19 for deposits into personal retirement savings ac-
20 counts pursuant to section 251(a) for such fiscal
21 year, an amount equal to the the excess (if any) of—

22 “(A) the surplus (if any) in the total budg-
23 et of the United States Government for the pre-
24 ceding fiscal year, over

1 “(B) the amount specified in connection
 2 with such preceding fiscal year in the following
 3 table:

“Fiscal year:	Specified amount:
1999	\$ 9,000,000,000
2000	\$ 1,000,000,000
2001	\$13,000,000,000
2002	\$67,000,000,000
2003	\$53,000,000,000.

4 “(b) AUTHORIZATION OF ADDITIONAL APPROPRIA-
 5 TIONS.—There are authorized to be appropriated for each
 6 fiscal year after fiscal year 1998 and before fiscal year
 7 2010, from amounts otherwise available in the general
 8 fund of the Treasury, such amounts, in addition to any
 9 amounts made available under subsection (a) for such fis-
 10 cal year, as are necessary to carry out the provisions of
 11 this part.

12 “DEFINITIONS

13 “SEC. 255. For purposes of this title—

14 “(1) PERSONAL RETIREMENT SAVINGS AC-
 15 COUNT.—The term ‘personal retirement savings ac-
 16 count’ has the meaning provided in section 408B of
 17 the Internal Revenue Code of 1986.

18 “(2) COVERED EMPLOYER.—The term ‘covered
 19 employer’ means, for any calendar year, any person
 20 on whom an excise tax is imposed under section
 21 3111 of the Internal Revenue Code of 1986 with re-
 22 spect to having an individual in his employ to whom

1 wages are paid by such person during such calendar
2 year.

3 “(3) BUSINESS DAY.—The term ‘business day’
4 means any day other than a Saturday, Sunday, or
5 legal holiday in the area involved.

6 “(4) BOARD OF TRUSTEES.—

7 “(A) IN GENERAL.—The term ‘Board of
8 Trustees’ means the Board of Trustees of the
9 Federal Old-Age and Survivors Insurance Trust
10 Fund and the Federal Disability Insurance
11 Trust Fund.

12 “(B) ROLE OF SECRETARY OF THE TREAS-
13 URY.—

14 “(i) IN GENERAL.—In connection with
15 the duties of the Board of Trustees under
16 this part, the Secretary of the Treasury
17 shall serve as Executive Director of the
18 Board of Trustees.

19 “(ii) STAFF.—Upon request of the
20 Board of Trustees, the Secretary may de-
21 tail, on a reimbursable basis, any of the
22 personnel of the Department of the Treas-
23 ury to the Board of Trustees to assist it in
24 carrying out its duties under this part.

1 “(iii) ADMINISTRATIVE SUPPORT.—

2 Upon the request of the Board, the Sec-
3 retary shall provide to the Board of Trust-
4 ees from the Department of the Treasury,
5 on a reimbursable basis, the administrative
6 support services necessary for the Board to
7 carry out its responsibilities under this
8 part.”.

9 (b) EFFECTIVE DATE AND NOTICE REQUIRE-
10 MENTS.—

11 (1) EFFECTIVE DATE.—The amendments made
12 by subsection (a) shall apply with respect to wages
13 paid after December 31, 1998, for pay periods end-
14 ing after such date and self-employment income for
15 taxable years beginning after such date.

16 (2) NOTICE REQUIREMENTS.—

17 (A) IN GENERAL.—Not later than October
18 1, 1998, the Commissioner of Social Security,
19 pursuant to direction by the Board of Trustees
20 of the Federal Old-Age and Survivors Insurance
21 Trust Fund and the Federal Disability Insur-
22 ance Trust Fund, shall—

23 (i) send to the last known address of
24 each eligible individual a description of the
25 program established by the amendments

1 made by this Act (including a detailed de-
2 scription of the process of election under
3 section 252 of the Social Security Act),
4 which shall be written in the form of a
5 pamphlet in language which may be readily
6 understood by the average worker,

7 (ii) provide for toll-free access by tele-
8 phone from all localities in the United
9 States to the Social Security Administra-
10 tion and for a site on the Internet through
11 which individuals may obtain information
12 and answers to questions regarding such
13 program, and

14 (iii) provide information to the media
15 in all localities of the United States about
16 such program, such toll-free access by tele-
17 phone, and such site on the Internet.

18 (B) ELIGIBLE INDIVIDUAL.—For purposes
19 of this paragraph, the term “eligible individual”
20 means an individual who, as of the date of the
21 pamphlet sent pursuant to subparagraph (A), is
22 indicated within the records of the Social Secu-
23 rity Administration as—

24 (i) not having attained age 21, and

1 (ii) being credited with one or more
2 quarters of coverage under section 213 of
3 the Social Security Act.

4 (C) MATTERS TO BE INCLUDED.—The
5 Commissioner of Social Security shall include
6 with the pamphlet sent to each eligible individ-
7 ual pursuant to subparagraph (A)—

8 (i) a statement of the number of quar-
9 ters of coverage indicated in the records of
10 the Social Security Administration as of
11 the date of the description as credited to
12 such individual under section 213 of the
13 Social Security Act and the date as of
14 which such records may be considered ac-
15 curate, and

16 (ii) the number for toll-free access by
17 telephone established by the Commissioner
18 pursuant to subparagraph (A).

19 **SEC. 4. REDUCTION IN APPROPRIATIONS TO THE TRUST**
20 **FUNDS.**

21 Section 201 of the Social Security Act (42 U.S.C.
22 401) is amended by adding at the end the following new
23 subsection:

1 “Reduction in Appropriations to the Trust Funds

2 “(n) Under regulations prescribed by the Board of
 3 Trustees (in consultation with the Secretary of the Treas-
 4 ury) to carry out this subsection, the amounts appro-
 5 priated for any fiscal year under paragraphs (3) and (4)
 6 of subsection (a), to the extent attributable to taxes paid
 7 during such fiscal year with respect to an individual who
 8 is for such fiscal year a covered employee or covered self-
 9 employed individual (as defined in section 252), shall be
 10 reduced by 20 percent.”.

11 **SEC. 5. ADJUSTMENTS TO PRIMARY INSURANCE AMOUNTS**

12 **UNDER PART A OF TITLE II OF THE SOCIAL**
 13 **SECURITY ACT.**

14 (a) IN GENERAL.—Section 215 of the Social Security
 15 Act (42 U.S.C. 415) is amended by adding at the end the
 16 following new subsection:

17 “Adjustment of Primary Insurance Amount in Relation
 18 to Deposits Made to Personal Retirement Savings
 19 Accounts

20 “(j)(1) Except as provided in paragraph (2), an indi-
 21 vidual’s primary insurance amount as determined in ac-
 22 cordance with this section (before adjustments made
 23 under subsection (i)) shall be equal to the excess (if any)
 24 of—

1 “(A) the amount which would be so determined
2 without the application of this subsection, over

3 “(B) the monthly amount of an immediate life
4 annuity, determined on the basis of 50 percent of
5 the total of all amounts which have been deposited
6 pursuant to section 251(c) (indexed in the same
7 manner as is applicable with respect to average in-
8 dexed monthly earnings under subsection (b)) into
9 all personal retirement savings accounts held by
10 such individual, plus accrued interest compounded
11 annually, assuming an interest rate of 3.7 percent
12 and using the mortality table used under
13 412(l)(7)(C)(ii) of the Internal Revenue Code of
14 1986.

15 “(2) In the case of an individual described in para-
16 graph (1) who becomes entitled to disability insurance
17 benefits under section 223, such individual’s primary in-
18 surance amount shall be determined without regard to
19 paragraph (1).

20 “(3) For purposes of this subsection, the term ‘imme-
21 diate life annuity’ means an annuity—

22 “(A) the annuity starting date (as defined in
23 section 72(c)(4) of the Internal Revenue Code of
24 1986) of which commences with the first month fol-
25 lowing the date of the determination, and

1 “(B) which provides for a series of substantially
2 equal monthly payments over the life expectancy of
3 the individual described in paragraph (1).”.

4 (b) CONFORMING AMENDMENT TO RAILROAD RE-
5 TIREMENT ACT OF 1974.—Section 1 of the Railroad Re-
6 tirement Act of 1974 (45 U.S.C. 231) is amended by add-
7 ing at the end the following:

8 “(s) In applying applicable provisions of the Social
9 Security Act for purposes of determining the amount of
10 the annuity to which an individual is entitled under this
11 Act, section 215(j) of the Social Security Act and part
12 B of title II of such Act shall be disregarded.”

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply with respect to computations and
15 recomputations of primary insurance amounts occurring
16 after December 31, 1998.

17 **SEC. 6. PERSONAL RETIREMENT SAVINGS ACCOUNTS.**

18 (a) DEDUCTION FOR CONTRIBUTIONS BY TAX-
19 PAYER.—Part VII of subchapter B of chapter 1 of the
20 Internal Revenue Code of 1986 (relating to additional
21 itemized deductions) is amended by redesignating section
22 222 as section 223 and by inserting after section 221 the
23 following new section:

1 **“SEC. 222. CONTRIBUTIONS TO PERSONAL RETIREMENT**
2 **SAVINGS ACCOUNTS.**

3 “(a) IN GENERAL.—In the case of an individual who
4 is an electing personal retirement savings account partici-
5 pant for the taxable year, there shall be allowed as a de-
6 duction an amount equal to 50 percent of the amount con-
7 tributed during such taxable year by such individual to
8 a personal retirement savings account maintained for the
9 benefit of such individual.

10 “(b) LIMITATION.—The amount of contributions
11 which may be taken into account under subsection (a)
12 shall not exceed \$2,000.

13 “(c) ELECTING PERSONAL RETIREMENT SAVINGS
14 ACCOUNT PARTICIPANT.—An individual is an electing
15 personal retirement savings account participant for any
16 taxable year if any amount is deposited under section
17 251(c) of the Social Security Act for such taxable year
18 to a personal retirement savings account maintained for
19 the benefit of such individual.

20 “(d) SPECIAL RULES.—

21 “(1) NO DEDUCTION FOR TRUSTEE-TO-TRUST-
22 EE TRANSFERS.—No deduction shall be allowed for
23 amounts transferred to an account under section
24 408B(f)(2).

25 “(2) TIME WHEN CONTRIBUTIONS DEEMED
26 MADE.—For purposes of this section, a taxpayer

1 shall be deemed to have made a contribution to a
2 personal retirement savings account on the last day
3 of the preceding taxable year if the contribution is
4 made on account of such taxable year and is made
5 not later than the time prescribed by law for filing
6 the return for such taxable year (not including ex-
7 tensions thereof).”

8 (b) PERSONAL RETIREMENT SAVINGS ACCOUNTS.—

9 Subpart A of part I of subchapter D of chapter 1 of such
10 Code (relating to pension, profit-sharing, stock bonus
11 plans, etc.) is amended by inserting after section 408A
12 the following new section:

13 **“SEC. 408B. PERSONAL RETIREMENT SAVINGS ACCOUNTS.**

14 “(a) GENERAL RULE.—Gross income shall not in-
15 clude any amount deposited in a personal retirement sav-
16 ings account under section 251(c) of the Social Security
17 Act.

18 “(b) PERSONAL RETIREMENT SAVINGS ACCOUNT.—

19 For purposes of this title, the term ‘personal retirement
20 savings account’ means a trust created or organized in the
21 United States for the exclusive benefit of an individual or
22 his beneficiaries, but only if the written governing instru-
23 ment creating the trust meets the following requirements:

24 “(1) No contribution will be accepted other
25 than—

1 “(A) deposits under sections 251(c) of the
2 Social Security Act, and

3 “(B) contributions made in cash, except
4 that contributions under this subparagraph may
5 not be accepted for any taxable year in excess
6 of \$2,000.

7 “(2) No amount may be paid or distributed
8 from such trust—

9 “(A) before the date on which the account
10 holder attains age 59½, becomes entitled to
11 disability insurance benefits under section 223
12 of the Social Security Act, or dies, or

13 “(B) in a manner not meeting the require-
14 ments of subsection (d).

15 “(3) The trustee of which is a regulated invest-
16 ment company (as defined in section 851) which is
17 approved by the Secretary for purposes of this sec-
18 tion.

19 “(4) The interest of an individual in the bal-
20 ance in his account is nonforfeitable.

21 Paragraphs (1) and (2) shall not apply to direct trustee-
22 to-trustee transfers described in subsection (f)(2).

23 “(c) INVESTMENT REQUIREMENTS.—

24 “(1) IN GENERAL.—Amounts in a personal re-
25 tirement savings account may be invested only in

1 regulated investment companies (as defined in sec-
2 tion 851) which are approved by the Secretary for
3 purposes of this section.

4 “(2) CRITERIA FOR SECRETARIAL APPROVAL.—
5 The Secretary may approve a regulated investment
6 company for purposes of this section only if—

7 “(A) an election is in effect under section
8 851(b)(1) for such company, and

9 “(B) the portfolio assets of such com-
10 pany—

11 “(i) replicate the assets of a broad-
12 based index of stocks which is approved by
13 the Secretary, or

14 “(ii) are of a type determined by the
15 Secretary not to involve high risks for the
16 investor.

17 To the extent possible, the Secretary shall approve
18 under subparagraph (B)(i) funds in each of the fol-
19 lowing 4 categories: domestic stocks, domestic bonds,
20 stocks of companies having small capitalization, and
21 foreign stocks. The Secretary shall take into account
22 management costs in determining whether to ap-
23 prove a company for purposes of this section.

24 “(d) DISTRIBUTION REQUIREMENTS.—

1 “(1) IN GENERAL.—The requirements of this
2 subsection are met with respect to distributions from
3 a personal retirement savings account only if such
4 distributions are in accordance with a payment op-
5 tion under paragraph (2). The preceding sentence
6 shall not apply to direct trustee-to-trustee transfers
7 described in subsection (f)(2).

8 “(2) PAYMENT OPTIONS.—The payment options
9 under this paragraph are the following:

10 “(A) LIFETIME OPTION.—Distributions in
11 equal annual or more frequent periodic install-
12 ments over a stated period of 10, 15, or 20
13 years, payable to the account holder. The trust-
14 ee of the account shall be liable under the terms
15 of the account to the account holder for the
16 timely payment of periodic payments during the
17 stated period. If the account holder survives the
18 stated period, the terms governing the account
19 shall provide for continuing distributions for the
20 life of the account holder in annual or more fre-
21 quent periodic payments for the life of the ac-
22 count holder or (if earlier) until exhaustion of
23 the account balance.

24 “(B) NONLIFETIME OPTION.—Distribu-
25 tions in equal annual or more frequent periodic

1 installments of interest only, or of interest and
2 principal. Any such payment of equal install-
3 ments shall continue until—

4 “(i) payment ceases at the direction of
5 the account holder to the trustee,

6 “(ii) payment continues in accordance
7 with this subparagraph but at an adjusted
8 level at the direction of the account holder
9 to the trustee, or

10 “(iii) the distribution converts to an
11 option described in subparagraph (A) at
12 the direction of the account holder to the
13 trustee.

14 “(C) ADDITIONAL OPTIONS.—Distributions
15 in any other manner permitted under regula-
16 tions prescribed by the Secretary.

17 “(e) ACCOUNT EXEMPT FROM TAX.—

18 “(1) GENERAL RULE.—Any personal retirement
19 savings account is exempt from taxation under this
20 subtitle. Notwithstanding the preceding sentence,
21 any such account is subject to the taxes imposed by
22 section 511 (relating to imposition of tax on unre-
23 lated business income of charitable, etc. organiza-
24 tions).

1 “(2) APPLICATION OF PROHIBITED TRANS-
2 ACTIONS RULES, ETC.—Rules similar to the rules of
3 paragraphs (2), (3), and (4) of section 408(e) shall
4 apply to personal retirement savings accounts.

5 “(f) DISTRIBUTIONS TAXED AS IF SOCIAL SECURITY
6 BENEFITS.—

7 “(1) GENERAL RULE.—Amounts paid or dis-
8 tributed from a personal retirement savings account
9 shall be includible in gross income only if so includ-
10 ible under section 86, determined by treating such
11 amounts as social security benefits (as defined in
12 such section).

13 “(2) TRUSTEE-TO-TRUSTEE TRANSFERS.—No
14 amount shall be includible in gross income by reason
15 of a direct trustee-to-trustee transfer between per-
16 sonal retirement savings accounts of the same indi-
17 vidual.

18 “(3) RETURN OF EXCESS CONTRIBUTIONS.—
19 Paragraph (1) shall not apply to the distribution of
20 any contribution (other than a deposit made under
21 section 251(c) of the Social Security Act) made dur-
22 ing a taxable year to the extent that such contribu-
23 tion exceeds the dollar amount specified in sub-
24 section (b)(1)(B) if—

1 “(A) such distribution is received on or be-
2 fore the last day prescribed by law (including
3 extensions) for filing such individual’s return
4 for such taxable year,

5 “(B) such contribution is not taken into
6 account in determining the deduction allowed
7 under section 222, and

8 “(C) such distribution is accompanied by
9 the amount of net income attributable to such
10 contribution.

11 Any net income described in subparagraph (C) shall
12 be included in gross income for the taxable year in
13 which such contribution is made.

14 “(g) CERTAIN OTHER RULES TO APPLY.—The fol-
15 lowing rules shall apply to personal retirement savings ac-
16 counts in the same manner that such rules apply to indi-
17 vidual retirement accounts:

18 “(1) Section 408(h) (relating to custodial ac-
19 counts).

20 “(2) Section 408(i) (relating to reports).

21 “(h) TREATMENT AFTER DEATH OF ACCOUNT
22 HOLDER.—A personal retirement savings account shall
23 cease to be such on the date of the account holder’s death,
24 but no amount shall be includible in gross income by rea-
25 son of such cessation.”

1 (c) DEDUCTION ALLOWED WHETHER OR NOT TAX-
 2 PAYER ITEMIZES OTHER DEDUCTIONS.—Subsection (a)
 3 of section 62 of such Code is amended by inserting after
 4 paragraph (17) the following new paragraph:

5 “(18) PERSONAL RETIREMENT SAVINGS AC-
 6 COUNTS.—The deduction allowed by section 222.”

7 (d) TAX ON EXCESS CONTRIBUTIONS.—

8 (1) IN GENERAL.—Subsection (a) of section
 9 4973 of such Code is amended by striking “or” at
 10 the end of paragraph (4), by adding “or” at the end
 11 of paragraph (5), and by inserting after paragraph
 12 (5) the following new paragraph:

13 “(6) a personal retirement savings account (as
 14 defined in section 408B),”.

15 (2) EXCESS CONTRIBUTION DEFINED.—Section
 16 4973 is amended by adding at the end the following
 17 new subsection:

18 “(g) EXCESS CONTRIBUTIONS TO PERSONAL RE-
 19 TIREMENT SAVINGS ACCOUNTS.—For purposes of this
 20 section—

21 “(1) IN GENERAL.—In the case of personal re-
 22 tirement savings accounts maintained for the benefit
 23 of any 1 beneficiary, the term ‘excess contributions’
 24 means the amount by which the amount contributed

1 for the taxable year to such accounts exceeds
2 \$2,000.

3 “(2) SPECIAL RULES.—For purposes of para-
4 graph (1), the following contributions shall not be
5 taken into account:

6 “(A) Any contributions under section
7 251(c) of the Social Security Act.

8 “(B) Any trustee-to-trustee transfer.”

9 (e) CONFORMING AMENDMENTS.—

10 (1) Paragraph (1) of section 4975(e) of such
11 Code (relating to tax on prohibited transactions) is
12 amended by redesignating subparagraph (F) as sub-
13 paragraph (G), by striking “or” at the end of sub-
14 paragraph (E), and by inserting after subparagraph
15 (E) the following new subparagraph:

16 “(F) a personal retirement savings account
17 described in section 408B(b), or”.

18 (2) Paragraph (2) of section 6693(a) of such
19 Code (relating to failure to provide reports on cer-
20 tain tax favored accounts or annuities) is amended
21 by redesignating subparagraphs (C) and (D) as sub-
22 paragraphs (D) and (E), respectively, and by insert-
23 ing after subparagraph (B) the following new sub-
24 paragraph:

1 “(C) section 408B(g)(2) (relating to per-
2 sonal retirement savings accounts),”.

3 (f) CLERICAL AMENDMENTS.—

4 (1) The table of sections for part VII of sub-
5 chapter B of chapter 1 of such Code is amended by
6 striking the last item and inserting the following
7 new items:

 “Sec. 222. Contributions to personal retirement savings accounts.
 “Sec. 223. Cross reference.”

8 (2) The table of sections for subpart A of part
9 I of subchapter D of chapter 1 of such Code is
10 amended by inserting after the item relating to sec-
11 tion 408A the following new item:

 “Sec. 408B. Personal retirement savings accounts.”

12 (g) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to taxable years beginning after
14 December 31, 1998.

15 **SEC. 7. INTERIM AND FINAL REPORTS.**

16 Not later than February 1, 1999, and annually there-
17 after through February 1, 2009, the Board of Trustees
18 of the Federal Old-Age and Survivors Insurance Trust
19 Fund shall submit to each House of the Congress an in-
20 terim report on the operation of the amendments made
21 by this Act. Not later than August 1, 2009, Board of
22 Trustees shall submit to each House of the Congress a
23 final report on the operation of such amendments. The

1 Board of Trustees shall include in each report its assess-
2 ment of the effectiveness of such amendments and its rec-
3 ommendations for legislative and administrative changes.

4 **SEC. 8. INVESTMENT OF SOCIAL SECURITY TRUST FUNDS**
5 **IN MARKETABLE SECURITIES IN FISCAL**
6 **YEAR 1999.**

7 During fiscal year 1999, all obligations purchased by
8 the Managing Trustee of the Federal Old-Age and Sur-
9 vivors Insurance Trust Fund and the Federal Disability
10 Insurance Trust Fund for purposes of investment of such
11 Trust Funds pursuant to section 201(d) of the Social Se-
12 curity Act shall consist of obligations other than obliga-
13 tions issued pursuant to such section solely for purchase
14 by such Trust Funds. Such obligations purchased during
15 such fiscal year may be purchased on original issue at the
16 issue price or by purchase of outstanding obligations at
17 the market price, except that the Managing Trustee shall
18 ensure that, to the extent practicable, such obligations
19 have maturities, and bear interest at a rate, comparable
20 to the maturities and interest rates required under such
21 section in connection with obligations issued solely for pur-
22 chase by such Trust Funds, subject to an option to redeem
23 such obligations at any time at the purchase price.

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