

107TH CONGRESS
1ST SESSION

H. R. 2771

To amend title II of the Social Security Act to provide for individual security accounts funded by employee and employer Social Security payroll deductions, to extend the solvency of the old-age, survivors, and disability insurance program, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

AUGUST 2, 2001

Mr. KOLBE (for himself, Mr. STENHOLM, Mr. SMITH of Michigan, Mr. DOOLEY of California, and Mr. TOOMEY) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Rules, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To amend title II of the Social Security Act to provide for individual security accounts funded by employee and employer Social Security payroll deductions, to extend the solvency of the old-age, survivors, and disability insurance program, 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; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “21st Century Retirement Security Act”.

1 (b) TABLE OF CONTENTS.—The table of contents of
 2 this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Individual security accounts.
- Sec. 3. Minimum social security benefit.
- Sec. 4. Reduction in the amount of certain transfers to Medicare Trust Fund.
- Sec. 5. Increase in number of years taken into account in determining average indexed monthly earnings.
- Sec. 6. Actuarial adjustment for retirement.
- Sec. 7. Improvements in process for cost-of-living adjustments.
- Sec. 8. Adjustment to benefit formula factors.
- Sec. 9. Adjustments to bend points in determining primary insurance amounts.
- Sec. 10. Modification to PIA formula to reflect changes in life expectancy.
- Sec. 11. Treatment of disabled beneficiaries.
- Sec. 12. Maintenance of benefit and contribution base.
- Sec. 13. Phased-in increase in Social Security retirement ages.
- Sec. 14. Mechanism for remedying unforeseen deterioration in Social Security solvency.

3 **SEC. 2. INDIVIDUAL SECURITY ACCOUNTS.**

4 (a) ESTABLISHMENT AND MAINTENANCE OF INDIVIDUAL SECURITY ACCOUNTS.—

6 (1) IN GENERAL.—Title II of the Social Security Act (42 U.S.C. 401 et seq.) is amended—

8 (A) by inserting before section 201 the following:
 9

10 “PART A—INSURANCE BENEFITS”;

11 and

12 (B) by adding at the end the following:

13 “PART B—INDIVIDUAL SECURITY SYSTEM

14 “Subpart 1—Individual Security Accounts

15 “FEDERALLY-ADMINISTERED INDIVIDUAL SECURITY

16 ACCOUNT

17 “SEC. 251. (a) ESTABLISHMENT.—

1 “(1) IN GENERAL.—Within 30 days after re-
2 ceiving the first contribution under subsection (b)
3 with respect to an eligible individual, the Commis-
4 sioner of Social Security shall establish an individual
5 security account for such individual in the Individual
6 Security Fund. Each account shall be identified to
7 its account holder by means of the account holder’s
8 Social Security account number.

9 “(2) ELIGIBLE INDIVIDUAL.—For purposes of
10 this part, the term ‘eligible individual’ means any in-
11 dividual born after December 31, 1946.

12 “(b) CONTRIBUTIONS.—

13 “(1) IN GENERAL.—The Secretary of the
14 Treasury shall transfer from the Federal Old-Age
15 and Survivors Insurance Trust Fund, for crediting
16 by the Commissioner of Social Security to the indi-
17 vidual security account of an eligible individual, an
18 amount equal to the sum of any amount received by
19 such Secretary on behalf of such individual under
20 section 3101(a)(2) or 1401(a)(2) of the Internal
21 Revenue Code of 1986.

22 “(2) OTHER CONTRIBUTIONS.—For provisions
23 relating to additional contributions credited to indi-
24 vidual security accounts, see sections 532(c)(2) and
25 6402(l) of the Internal Revenue Code of 1986.

1 “(c) CREDITING REQUIREMENTS.—Except as other-
2 wise provided in section 252, contributions under sub-
3 section (b) on behalf of an eligible individual shall be
4 credited—

5 “(1) to the individual security account estab-
6 lished for such individual under subsection (a); and

7 “(2) in accordance with the allocation in effect
8 with respect to such individual under subsection (d).

9 “(d) ALLOCATION AND OTHER DESIGNATIONS.—

10 “(1) IN GENERAL.—The Commissioner of So-
11 cial Security shall prescribe regulations in accord-
12 ance with which any eligible individual who is em-
13 ployed or self-employed may designate—

14 “(A) in the event that 2 or more invest-
15 ment options are available in the Individual Se-
16 curity Fund—

17 “(i) the option or options to which
18 such individual wishes to have such indi-
19 vidual’s contributions under subsection (b)
20 credited; and

21 “(ii) if such individual designates
22 more than 1 option under clause (i), how
23 such individual wishes for those contribu-
24 tions to be allocated; and

1 “(B) the amount of wages or self-employ-
2 ment income such individual wishes to des-
3 ignate for purposes of section 3101(a)(2)(C) or
4 1401(a)(2)(C) of the Internal Revenue Code of
5 1986 (as applicable), if any.

6 “(2) DEFAULT ALLOCATION.—In the absence of
7 a required designation under paragraph (1)(A), con-
8 tributions on behalf of the individual involved shall
9 be allocated in such manner as the Commissioner of
10 Social Security shall prescribe, taking into account
11 the competing objectives of maximizing returns on
12 investments and minimizing the risk involved with
13 such investments.

14 “(3) FORM OF DESIGNATION.—Any designation
15 under paragraph (1) shall be made in such manner
16 and at such intervals as the Commissioner of Social
17 Security may prescribe in order to ensure ease of ad-
18 ministration and to avoid creating an undue burden
19 on employers.

20 “(4) SPECIAL RULE FOR 2003.—Not later than
21 January 1, 2003, any eligible individual who is em-
22 ployed or self-employed as of such date shall execute
23 all designations required under paragraph (1).

24 “(e) PERIODIC STATEMENTS TO ACCOUNT HOLD-
25 ER.—

1 “(1) IN GENERAL.—The Individual Security
2 Fund Board shall prescribe regulations under which
3 each individual for whom an individual security ac-
4 count is maintained under this section shall be fur-
5 nished with—

6 “(A) a periodic statement relating to the
7 individual’s account, including, for any report-
8 ing period as of the end of which the individ-
9 ual’s account balance is at least equal to the
10 minimum balance amount (within the meaning
11 of section 252), clear and conspicuous notice to
12 that effect;

13 “(B) a summary description of any invest-
14 ment options or other choices which may be
15 available to such individual under this section
16 or under section 252 (as applicable); and

17 “(C) any forms and information necessary
18 to make a designation under subsection (d) or
19 section 252 (as applicable).

20 “(2) INFORMED DECISIONMAKING.—All infor-
21 mation, materials, and other matter furnished under
22 this subsection shall be furnished to the account
23 holder at such times and in such manner as the
24 Board considers appropriate in order to permit in-
25 formed decisionmaking.

1 “PRIVATELY-ADMINISTERED INDIVIDUAL SECURITY
2 ACCOUNT

3 “SEC. 252. (a) DEFINITIONS.—For purposes of this
4 part—

5 “(1) MINIMUM DEPOSIT AMOUNT.—

6 “(A) IN GENERAL.—The term ‘minimum
7 deposit amount’ means an amount equal to
8 \$7,500, as adjusted under subparagraph (B).

9 “(B) ADJUSTMENT.—The Secretary of the
10 Treasury shall adjust annually (effective for pe-
11 riods beginning after December 2003) the dol-
12 lar amount set forth in subparagraph (A) under
13 procedures providing for adjustments in the
14 same manner and to the same extent as adjust-
15 ments are provided for under the procedures
16 used to adjust benefit amounts under section
17 215(i)(2)(A), except that any amount so ad-
18 justed that is not a multiple of \$10 shall be
19 rounded to the nearest multiple of \$10.

20 “(2) FEDERALLY-ADMINISTERED INDIVIDUAL
21 SECURITY ACCOUNT.—The term ‘Federally-adminis-
22 tered individual security account’ means an indi-
23 vidual security account maintained, in accordance
24 with applicable provisions of this part, in the Indi-
25 vidual Security Fund.

1 “(3) PRIVATELY-ADMINISTERED INDIVIDUAL
2 SECURITY ACCOUNT.—The term ‘privately-adminis-
3 tered individual security account’ means an indi-
4 vidual security account maintained, in accordance
5 with applicable provisions of this part, by a certified
6 institution.

7 “(4) CERTIFIED INSTITUTION.—The term ‘cer-
8 tified institution’ refers to an investment firm, credit
9 union, insurance company, or other certified institu-
10 tion under subpart 3.

11 “(b) OPTION TO DESIGNATE A PRIVATELY-ADMINIS-
12 TERED INDIVIDUAL SECURITY ACCOUNT.—

13 “(1) IN GENERAL.—Under regulations pre-
14 scribed by the Individual Security Fund Board,
15 whenever the balance in an individual’s Federally-
16 administered individual security account is at least
17 equal to the minimum deposit amount, such indi-
18 vidual shall be eligible to designate a privately-ad-
19 ministered individual security account (established
20 and maintained on such individual’s behalf) to serve
21 as such individual’s individual security account
22 under this part, in lieu of such individual’s Feder-
23 ally-administered individual security account.

24 “(2) EFFECT OF DESIGNATION.—If an indi-
25 vidual makes a designation under paragraph (1)—

1 “(A) the entire balance in the individual’s
2 Federally-administered individual security ac-
3 count shall be promptly transferred to the pri-
4 vately-administered individual security account
5 specified by such individual in such designation;
6 and

7 “(B) that privately-administered individual
8 security account shall, for all purposes, be
9 treated as the electing individual’s individual se-
10 curity account, subject to paragraph (4).

11 “(3) INFORMATION REQUIRED TO BE IN-
12 CLUDED.—A designation under this subsection shall
13 not be effective unless it is made in such time, form,
14 and manner as the Individual Security Fund Board
15 prescribes.

16 “(4) SUBSEQUENT DESIGNATIONS.—The Secu-
17 rities and Exchange Commission shall provide by
18 regulation opportunity for subsequent designation,
19 from time to time, of another individual security ac-
20 count in lieu of the account previously designated
21 under this section, subject to the following:

22 “(A) OPTIONS AVAILABLE.—The account
23 designated under this paragraph may be either
24 within—

1 “(i) another certified institution, sub-
2 ject to subparagraph (B); or

3 “(ii) the Individual Security Fund.

4 “(B) MINIMUM BALANCE.—In order to
5 make a designation referred to in subparagraph
6 (A)(i), the balance in the individual’s individual
7 security account must be at least equal to the
8 minimum deposit amount. No minimum balance
9 requirement under this subparagraph shall
10 apply in the case of a designation referred to in
11 subparagraph (A)(ii).

12 “(C) ONLY 1 ACCOUNT PERMITTED AT ANY
13 TIME.—An individual may not, at any time,
14 concurrently maintain—

15 “(i) a privately-administered indi-
16 vidual security account with each of 2 or
17 more certified institutions; or

18 “(ii) a privately-administered and a
19 Federally-administered individual security
20 account.

21 “(D) EFFECT.—A designation under this
22 paragraph has (with respect to the individual’s
23 respective accounts, before and after such des-
24 ignation) the same effect as results following a
25 designation under paragraph (2) (with respect

1 to the Federally-administered and privately-ad-
2 ministered accounts involved).

3 “DISTRIBUTIONS FROM INDIVIDUAL SECURITY ACCOUNTS

4 “SEC. 253. (a) DATE OF EARLIEST DISTRIBUTION.—Except as provided in subsection (c), distributions
5 TION.—Except as provided in subsection (c), distributions
6 may not be made from the Federally-administered or pri-
7 vately-administered individual security account of an eligi-
8 ble individual (as the case may be) before the earlier of—

9 “(1) the date the eligible individual attains nor-
10 mal retirement age, as determined under section 216
11 (or early retirement age, as so determined, if elected
12 by such individual), or

13 “(2) the date on which funds in the eligible in-
14 dividual’s account are sufficient to provide a month-
15 ly payment over the life expectancy of the eligible in-
16 dividual (determined under reasonable actuarial as-
17 sumptions) which, when added to the eligible individ-
18 ual’s monthly benefit under part A (if any), is at
19 least equal to an amount equal to $\frac{1}{12}$ of 185 percent
20 of the poverty line (as defined in section 673(2) of
21 the Community Services Block Grant Act (42 U.S.C.
22 9902(2) and determined on such date for a family
23 of the size involved) and adjusted annually there-
24 after by the adjustment determined under section
25 215(i).

26 “(b) FORMS OF DISTRIBUTION.—

1 “(1) REQUIRED MONTHLY PAYMENTS.—Except
2 as provided in paragraph (2), beginning as of the
3 date distributions begin to be made in accordance
4 with subsection (a), the balance in the individual se-
5 curity account available to provide monthly pay-
6 ments not in excess of the amount described in sub-
7 section (a)(2) shall be paid, as elected by the ac-
8 count holder (in such form and manner as shall be
9 prescribed in regulations of the Individual Security
10 Fund Board or the Securities and Exchange Com-
11 mission, as applicable), by means of the purchase of
12 annuities or equal monthly payments over the life
13 expectancy of the eligible individual (determined
14 under reasonable actuarial assumptions) in accord-
15 ance with requirements (which shall be provided in
16 regulations of the Board or Commission, as applica-
17 ble) similar to the requirements applicable to pay-
18 ments of benefits under subchapter III of chapter 84
19 of title 5, United States Code.

20 “(2) PAYMENT OF EXCESS FUNDS.—To the ex-
21 tent funds remain in an eligible individual’s Feder-
22 ally-administered or privately-administered indi-
23 vidual security account (as the case may be) after
24 the application of paragraph (1) and to the extent
25 not inconsistent with the provisions of subchapter

13 “Subpart 2—Individual Security Fund; Individual
14 Security Fund Board

16 “SEC. 261. There shall be established and maintained
17 in the Treasury of the United States an Individual Secu-
18 rity Fund in the same manner as the Thrift Savings Fund
19 under sections 8437 (excluding paragraphs (4) and (5) of
20 subsection (c) thereof), 8438, and 8439 of title 5, United
21 States Code.

23 “SEC. 262. (a) ESTABLISHMENT.—There shall be es-
24 tablished and maintained in the Social Security Adminis-
25 tration an Individual Security Fund Board in the same
26 manner as the Federal Retirement Thrift Investment

1 Board under subchapter VII of chapter 84 of title 5,
2 United States Code.

3 “(b) SPECIFIC INVESTMENT AND REPORTING DU-
4 TIES.—The Individual Security Fund Board shall manage
5 and report on the activities of the Individual Security
6 Fund and on Federally-administered individual security
7 accounts in the same manner as the Federal Retirement
8 Thrift Investment Board manages and reports on the
9 Thrift Savings Fund and the individual accounts of such
10 Fund under subchapter VII of chapter 84 of title 5,
11 United States Code.

12 “(c) BUDGETARY TREATMENT OF INDIVIDUAL SECU-
13 RITY FUND AND ACCOUNTS

14 “The receipts and disbursements of the Individual
15 Security Fund and any accounts within such Fund shall
16 not be included in the totals of the budget of the United
17 States Government as submitted by the President or of
18 the congressional budget and shall be exempt from any
19 general budget limitation imposed by statute on expendi-
20 tures and net lending (budget outlays) of the United
21 States Government.

22 “(d) COMMISSIONER OF SOCIAL SECURITY AS EXEC-
23 UTIVE DIRECTOR.—The Commissioner of Social Security
24 shall have, with respect to the Individual Security Fund
25 and accounts within such Fund, the same duties and re-

1 sponsibilities as does the Executive Director (appointed
 2 under section 8474(a) of title 5, United States Code) with
 3 respect to the Thrift Savings Fund and accounts within
 4 such Fund.

5 “Subpart 3—Certified Institutions

6 “CERTIFICATION OF INSTITUTIONS BY SECURITIES AND
 7 EXCHANGE COMMISSION

8 “SEC 271. (a) IN GENERAL.—For purposes of meet-
 9 ing the requirements of section 532 of the Internal Rev-
 10 enue Code of 1986 (relating to trusteeship of individual
 11 security accounts), any institution that is engaged, in a
 12 fiduciary capacity, in the business of maintaining accounts
 13 for individuals for purposes of investment may apply to
 14 the Securities and Exchange Commission (in such form
 15 and manner as the Commission shall by regulation re-
 16 quire) for certification under this subpart.

17 “(b) REVIEW REQUIREMENTS.—In reviewing any ap-
 18 plication for certification under this subpart and deter-
 19 mining whether to approve the application for certifi-
 20 cation, the Commission shall consider the following fac-
 21 tors:

22 “(1) The financial history and condition of the
 23 institution.

24 “(2) The adequacy of the institution’s capital
 25 structure.

1 “(3) The future earnings prospects of the insti-
2 tution.

3 “(4) The general character and fitness of the
4 management of the institution.

5 “(5) The convenience and needs of individuals
6 who are account holders with respect to personal re-
7 tirement accounts for which the institution is to
8 serve as trustee.

9 “(6) Whether the institution’s corporate powers
10 are consistent with the purposes of this part.

11 “(7) The institution’s disclosure policies, includ-
12 ing with respect to its administrative fees, invest-
13 ment policies, and investment activities.

14 “(8) The appropriateness of—

15 “(A) the fund or funds that such institu-
16 tion proposes to offer for purposes of this part,
17 and

18 “(B) the criteria by which such institution
19 will make future decisions regarding the selec-
20 tion of new funds or the making of any other
21 modifications in the investment options offered
22 by such institution for purposes of this part,
23 as determined based on guidelines established by the
24 Commission for purposes of this paragraph.

1 “(c) NOTICE OF DENIAL OF APPLICATION FOR CER-
2 TIFICATION.—If the Commission votes to deny any appli-
3 cation for certification by any institution, the Commission
4 shall promptly notify the institution of the denial of such
5 application, giving specific reasons in writing for the Com-
6 mission’s determination with reference to the factors de-
7 scribed in subsection (b).

8 “(d) NONDELEGATION REQUIREMENT.—The author-
9 ity of the Commission to make any determination to deny
10 any application under this section may not be delegated
11 by the Commission.

12 “REVOCATION OF CERTIFICATION

13 “SEC. 272. (a) IN GENERAL.—The Securities and
14 Exchange Commission shall prescribe regulations in ac-
15 cordance with which the certified status of an institution
16 may be voluntarily or involuntarily revoked.

17 “(b) JUDICIAL REVIEW.—Any party to any involun-
18 tary revocation proceeding under this section to which an
19 institution is a party may obtain a review of any order
20 served pursuant to this section by the filing in the court
21 of appeals of the United States for the circuit in which
22 the home office of the institution is located, or in the
23 United States Court of Appeals for the District of Colum-
24 bia Circuit, within 30 days after the date of service of such
25 order, a written petition praying that the order of the
26 Commission be modified, terminated, or set aside. A copy

1 of such petition shall be forthwith transmitted by the clerk
2 of the court to the Commission, and thereupon the Com-
3 mission shall file in the court the record in the proceeding,
4 as provided in section 2112 of title 28, United States
5 Code. Upon the filing of such petition, such court shall
6 have jurisdiction, which upon the filing of the record shall
7 be exclusive, to affirm, modify, terminate, or set aside, in
8 whole or in part, the order of the Commission. Review of
9 such proceedings shall be had as provided in chapter 7
10 of title 5, United States Code. The judgment and decree
11 of the court shall be final, except that the judgment and
12 decree shall be subject to review by the Supreme Court
13 upon certiorari, as provided in section 1254 of title 28,
14 United States Code. The commencement of proceedings
15 for judicial review under this subsection shall not, unless
16 specifically ordered by the court, operate as a stay of any
17 order issued by the Commission.

18 “FIDUCIARY DUTIES

19 “SEC. 273. (a) IN GENERAL.—In the case of a pri-
20 vately-administered individual security account which does
21 not form part of an individual account plan covered under
22 part 4 of subtitle B of title I of the Employee Retirement
23 Income Security Act of 1974, rules similar to the rules
24 of such part 4 applicable to individual account plans cov-
25 ered under such part 4 shall apply with respect to a pri-
26 vately-administered individual security account and the

1 terms of any arrangement under which such account is
2 maintained.

3 “(b) GENERAL REQUIREMENTS.—In applying under
4 subsection (a) the rules of part 4 of subtitle B of title
5 I of the Employee Retirement Income Security Act of
6 1974 in the case of a privately-administered individual se-
7 curity account, references in such part to the Secretary
8 of Labor shall be deemed to be references to the Securities
9 and Exchange Commission, references in such part to a
10 participants or beneficiary in connection with an indi-
11 vidual account plan covered under such part shall be
12 deemed to be references to the account holder with respect
13 to the privately-administered individual security account,
14 and references in such part to the plan administrator or
15 plan sponsor in connection with an individual account plan
16 covered under such part shall be deemed to be references
17 to the trustee of the privately-administered individual se-
18 curity account.

19 “(c) LIMITATION ON LIABILITY.—Any account holder
20 who issues an instruction to the trustee of the account
21 directing an investment of funds held in the account shall
22 sign an acknowledgement prescribed by the Securities and
23 Exchange Commission which states that the account hold-
24 er understands that an investment of any amount in the
25 account is made at the account holder’s risk, that the ac-

1 count holder is not protected by the Government or by
2 the trustee against any loss on such investment, and that
3 a return on such investment is not guaranteed by the Gov-
4 ernment or by the trustee. Notwithstanding the preceding
5 provisions of this section and any other provision of Fed-
6 eral or State law, the trustee of a privately-administered
7 individual security account shall not be liable for losses
8 suffered in connection with any investment of assets held
9 in the account unless it is shown by clear and convincing
10 evidence that the trustee did not act in the manner in
11 which a reasonable trustee would act under the cir-
12 cumstances then prevailing in evaluating the risk and re-
13 ward properties of the investment option involved.

14 “Subpart 4—Enforcement

15 “CAUSE OF ACTION

16 “SEC. 281. The account holder with respect to a pri-
17 vately-administered individual security account who is ad-
18 versely affected by an act or practice of any party (other
19 than the Securities and Exchange Commission, the Social
20 Security Administration, the Department of the Treasury,
21 or any officer or employee of any of the foregoing) in viola-
22 tion of any provision of this part, may bring an action—
23 “(1) to enjoin such act or practice, or

1 “(2) to obtain other appropriate equitable relief
2 (A) to redress such violation or (B) to enforce such
3 provision.

4 “JURISDICTION AND VENUE

5 “SEC. 282. Civil actions under this subpart may be
6 brought in the district courts of the United States in the
7 district where the privately-administered individual secu-
8 rity account is administered, where the violation took
9 place, or where a defendant resides or may be found, and
10 process may be served in any district where a defendant
11 resides or may be found. The district courts of the United
12 State shall have jurisdiction, without regard to the amount
13 in controversy or the citizenship of the parties, to grant
14 the relief provided for in section 281 in any action.

15 “RIGHT OF SECURITIES AND EXCHANGE COMMISSION TO
16 INTERVENE

17 “SEC. 283. A copy of the complaint or notice of ap-
18 peal in any action under this subpart shall be served upon
19 the Securities and Exchange Commission by certified mail.
20 The Commission shall each have the right to intervene in
21 any action.

22 “AWARDS OF COSTS AND EXPENSES

23 “SEC. 284. In any action brought under this subpart,
24 the court in its discretion may award all or a portion of
25 the costs and expenses incurred in connection with such

1 action, including reasonable attorney’s fees, to any party
2 who prevails or substantially prevails in such action.

3 “LIMITATION ON ACTIONS

4 “SEC. 285. (a) IN GENERAL.—Except as provided in
5 subsection (c), an action under this subpart may not be
6 brought after the later of—

7 “(1) 6 years after the date on which the cause
8 of action arose, or

9 “(2) 3 years after the applicable date specified
10 in subsection (b).

11 “(b) APPLICABLE DATE.—The applicable date speci-
12 fied in this subsection is the earliest date on which the
13 plaintiff acquired or should have acquired actual knowl-
14 edge of the existence of such cause of action.

15 “(c) CASES OF FRAUD OR CONCEALMENT.—In the
16 case of fraud or concealment, the period described in sub-
17 section (a)(2) shall be extended to 6 years after the appli-
18 cable date specified in subsection (b).

19 “PENALTY FOR FAILURE TO TIMELY PROVIDE REQUIRED
20 INFORMATION

21 “SEC. 286. The Securities and Exchange Commission
22 may assess a penalty, payable to it, against any person
23 who fails to provide any notice or other material informa-
24 tion required under this part or any regulations prescribed
25 under this part within the applicable time limit specified

1 therein. Such penalty shall not exceed \$1,000 for each day
2 for which such failure continues.

3 “ACTIONS BY SECURITIES AND EXCHANGE COMMISSION

4 “SEC. 287. If any person is assessed under this sub-
5 part and fails to pay the assessment when due, or any
6 person otherwise fails to meet any requirement of this
7 part, the Securities and Exchange Commission may bring
8 a civil action in any district court of the United States
9 within the jurisdiction of which such person’s assets are
10 located or in which such person resides or is found for
11 the recovery of the amount of the assessment or for appro-
12 priate equitable relief to redress the violation or enforce
13 the provisions of this part, and process may be served in
14 any other district. The district courts of the United States
15 shall have jurisdiction over actions brought under this sec-
16 tion by the Commission without regard to the amount in
17 controversy.

18 “CRIMINAL PENALTY FOR FRAUD OR INTENTIONAL MIS-
19 REPRESENTATION IN CONNECTION WITH INVEST-
20 MENT OPTIONS

21 “SEC. 288. Any person who makes, or causes to be
22 made, a statement or representation of a material fact for
23 use in selecting an investment option that the person
24 knows or should know is false or misleading or knows or
25 should know omits a material fact or makes such a state-
26 ment with knowing disregard for the truth shall upon con-

1 viction be fined not more than \$500,000 or imprisoned
2 for not more than 5 years, or both.”.

3 (2) IMPLEMENTATION.—

4 (A) PROVISIONS RELATING TO FEDER-
5 ALLY-ADMINISTERED INDIVIDUAL SECURITY AC-
6 COUNTS.—The Individual Security Fund Board,
7 in consultation with the Commissioner of Social
8 Security and the Secretary of the Treasury,
9 shall establish an expedited procedure to ensure
10 timely implementation of the amendments made
11 by this subsection, to the extent that they relate
12 to Federally-administered individual security ac-
13 counts. The Board shall submit to each House
14 of the Congress a report on the status of such
15 implementation not later than March 1, 2003.
16 All measures necessary to prepare for—

17 (i) the implementation of such amend-
18 ments, to the extent necessary to provide
19 for at least the option described in section
20 251(d)(2) of the Social Security Act (as
21 amended by this section), shall be com-
22 pleted by the Board, the Commissioner,
23 and the Secretary not later than January
24 1, 2003; and

1 (ii) full implementation of such
2 amendments (as they relate to Federally-
3 administered individual security accounts)
4 shall be completed by the Commission, the
5 Commissioner, and the Secretary not later
6 than January 1, 2005.

7 (B) PROVISIONS RELATING TO PRIVATELY-
8 ADMINISTERED INDIVIDUAL SECURITY AC-
9 COUNTS.—The Securities and Exchange Com-
10 mission, in consultation with the Commissioner
11 of Social Security and the Secretary of the
12 Treasury, shall establish an expedited procedure
13 to ensure timely implementation of the amend-
14 ments made by this section, to the extent that
15 they relate to privately-administered individual
16 security accounts. The Commission shall submit
17 to each House of the Congress a report on the
18 status of such implementation not later than
19 March 1, 2003. All measures necessary to pre-
20 pare for full implementation of such amend-
21 ments (as they relate to privately-administered
22 individual security accounts) shall be completed
23 by the Commission, the Commissioner, and the
24 Secretary not later than January 1, 2005.

1 (C) DEFINITIONS.—For purposes of this
 2 paragraph, the terms “Individual Security
 3 Fund Board”, “Federally-administered indi-
 4 vidual security account”, and “privately-admin-
 5 istered individual security account” have the
 6 meanings given them under part B of title II of
 7 the Social Security Act (as amended by this
 8 subsection).

9 (b) MODIFICATION OF FICA RATES.—

10 (1) EMPLOYEES.—Section 3101(a) of the Inter-
 11 nal Revenue Code of 1986 (relating to tax on em-
 12 ployees) is amended to read as follows:

13 “(a) OLD-AGE, SURVIVORS, AND DISABILITY INSUR-
 14 ANCE.—

15 “(1) IN GENERAL.—

16 “(A) INDIVIDUALS COVERED UNDER PART
 17 A OF TITLE II OF THE SOCIAL SECURITY ACT.—

18 In addition to other taxes, there is hereby im-
 19 posed on the income of every individual who is
 20 not a part B eligible individual a tax equal to
 21 6.2 percent of the wages received by him with
 22 respect to employment.

23 “(B) INDIVIDUALS COVERED UNDER PART
 24 B OF TITLE II OF THE SOCIAL SECURITY ACT.—

1 “(i) IN GENERAL.—In addition to
 2 other taxes, there is hereby imposed on the
 3 income of every part B eligible individual a
 4 tax equal to the applicable percentage of
 5 the wages received by such individual with
 6 respect to employment.

7 “(ii) APPLICABLE PERCENTAGE.—For
 8 purposes of clause (i), the term ‘applicable
 9 percentage’ means the excess of 6.2 per-
 10 cent, over

11 “(I) 3 percent, in the case of the
 12 first \$10,000 of such wages received
 13 in the calendar year, and

14 “(II) 2 percent, in the case of
 15 any additional such wages received in
 16 the calendar year.

17 “(2) CONTRIBUTION OF OASDI TAX REDUCTION
 18 TO INDIVIDUAL SECURITY ACCOUNTS.—In addition
 19 to other taxes, there is hereby imposed on the in-
 20 come of every part B eligible individual for the cal-
 21 endar year an individual security account contribu-
 22 tion equal to the sum of—

23 “(A) 3 percent of so much of the wages as
 24 does not exceed the first \$10,000 received in

such calendar year by such individual with respect to employment,

“(B) 2 percent of the excess of—

“(i) such wages, over

“(ii) the wages taken into account under subparagraph (A), plus

“(C) so much of such wages (not to exceed \$5,000) as designated by the individual in the same manner as described in section 251(c) of the Social Security Act.

“(3) INFLATION ADJUSTMENT BASED ON WAGE INDEX.—

“(A) IN GENERAL.—In the case of any calendar year beginning after 2003, the \$10,000 amount in paragraphs (1) and (2) shall be increased by an amount equal to—

“(i) such dollar amount, multiplied by

“(ii) the percentage increase (if any) for such year determined under section 215(i) of the Social Security Act.

“(B) DESIGNATED CONTRIBUTIONS.—In the case of any calendar year beginning after 2008, the \$5,000 amount in paragraph (2)(C) shall be increased by an amount equal to—

“(i) such dollar amount, multiplied by

1 “(ii) the percentage increase (if any)
2 for such year determined under section
3 215(i) of the Social Security Act.

4 “(C) ROUNDING.—If any dollar amount
5 after being increased under subparagraph (A)
6 or (B) is not a multiple of \$10, such dollar
7 amount shall be rounded to the nearest multiple
8 of \$10.

9 “(4) DEFINITIONS.—For purposes of this
10 subsection—

11 “(A) WAGES.—The term ‘wages’ shall have
12 the meaning given to such term by section
13 3121(a).

14 “(B) EMPLOYMENT.—The term ‘employ-
15 ment’ shall have the meaning given to such
16 term by section 3121(b).”.

17 (2) SELF-EMPLOYED.—Section 1401(a) of the
18 Internal Revenue Code of 1986 (relating to tax on
19 self-employment income) is amended to read as fol-
20 lows:

21 “(a) OLD-AGE, SURVIVORS, AND DISABILITY INSUR-
22 ANCE.—

23 “(1) IN GENERAL.—

24 “(A) INDIVIDUALS COVERED UNDER PART
25 A OF THE SOCIAL SECURITY ACT.—In addition

1 to other taxes, there shall be imposed for each
2 taxable year, on the self-employment income of
3 every individual who is not a part B eligible in-
4 dividual for the calendar year ending with or
5 during such taxable year, a tax equal to 12.40
6 percent of the amount of the self-employment
7 income for such taxable year.

8 “(B) INDIVIDUALS COVERED UNDER PART
9 B OF TITLE II OF THE SOCIAL SECURITY ACT.—

10 “(i) IN GENERAL.—In addition to
11 other taxes, there is hereby imposed for
12 each taxable year, on the self-employment
13 income of every part B eligible individual,
14 a tax equal to the applicable percentage of
15 the amount of the self-employment income
16 for such taxable year.

17 “(ii) APPLICABLE PERCENTAGE.—For
18 purposes of clause (i), the term ‘applicable
19 percentage’ means the excess of 12.4 per-
20 cent, over

21 “(I) 3 percent, in the case of the
22 first \$10,000 of self-employment in-
23 come received in the calendar year,
24 and

1 “(II) 2 percent, in the case of
2 any additional self-employment income
3 received in the calendar year.

4 “(2) CONTRIBUTION OF OASDI TAX REDUCTION
5 TO INDIVIDUAL SECURITY ACCOUNTS.—In addition
6 to other taxes, there is hereby imposed for each tax-
7 able year, on the self-employment income of every
8 part B eligible individual for the calendar year, an
9 individual security account contribution equal to the
10 sum of—

11 “(A) 3 percent of self-employment income
12 as does not exceed the first \$10,000 of such in-
13 come derived during the taxable year by such
14 individual,

15 “(B) 2 percent of self-employment income
16 in the case of any additional self-employment
17 income derived by such individual during the
18 taxable year, and

19 “(C) so much of such self-employment in-
20 come (not to exceed \$5,000) as designated by
21 the individual in the same manner as described
22 in section 251(c) of the Social Security Act.

23 “(3) INFLATION ADJUSTMENT BASED ON WAGE
24 INDEX.—

1 “(A) IN GENERAL.—In the case of any cal-
 2 endar year beginning after 2003, the \$10,000
 3 amount in paragraphs (1) and (2) shall be in-
 4 creased by an amount equal to—

5 “(i) such dollar amount, multiplied by

6 “(ii) the percentage increase (if any)
 7 for such year determined under section
 8 215(i) of the Social Security Act.

9 “(B) DESIGNATED CONTRIBUTIONS.—In
 10 the case of any calendar year beginning after
 11 2008, the \$5,000 amount in paragraph (2)(C)
 12 shall be increased by an amount equal to—

13 “(i) such dollar amount, multiplied by

14 “(ii) the percentage increase (if any)
 15 for such year determined under section
 16 215(i) of the Social Security Act.

17 “(C) ROUNDING.—If any dollar amount
 18 after being increased under subparagraph (A)
 19 or (B) is not a multiple of \$10, such dollar
 20 amount shall be rounded to the nearest multiple
 21 of \$10.

22 (3) PART B ELIGIBLE INDIVIDUAL.—

23 (A) TAXES ON EMPLOYEES.—Section 3121
 24 of such Code (relating to definitions) is amend-

1 ed by inserting after subsection (s) the fol-
 2 lowing new subsection:

3 “(t) PART B ELIGIBLE INDIVIDUAL.—For purposes
 4 of this chapter, the term ‘part B eligible individual’ means,
 5 for any calendar year, an individual who is an eligible indi-
 6 vidual (as defined in section 251(a)(2) of the Social Secu-
 7 rity Act) for such calendar year.”.

8 (B) SELF-EMPLOYMENT TAX.—Section
 9 1402 of such Code (relating to definitions) is
 10 amended by adding at the end the following
 11 new subsection:

12 “(k) PART B ELIGIBLE INDIVIDUAL.—The term
 13 ‘part B eligible individual’ means, for any calendar year,
 14 an individual who is an eligible individual (as defined in
 15 section 251(a)(2) of the Social Security Act) for such cal-
 16 endar year.”.

17 (4) EFFECTIVE DATES.—

18 (A) EMPLOYEES.—The amendments made
 19 by paragraphs (1) and (3)(A) apply to remu-
 20 neration paid after December 31, 2002.

21 (B) SELF-EMPLOYED INDIVIDUALS.—The
 22 amendments made by paragraphs (2) and
 23 (3)(B) apply to taxable years beginning after
 24 December 31, 2002.

25 (c) MATCHING CONTRIBUTIONS.—

1 (1) IN GENERAL.—Part IV of subchapter A of
 2 chapter 1 of the Internal Revenue Code of 1986 (re-
 3 lating to credits against tax) is amended by adding
 4 at the end the following new subpart:

5 **“Subpart H—Individual Security Account Credits**

 “Sec. 54. Individual security account credit.”.

6 **“SEC. 54. INDIVIDUAL SECURITY ACCOUNT CREDIT.**

7 “(a) ALLOWANCE OF CREDIT.—Each part B eligible
 8 individual is entitled to a credit for the taxable year in
 9 an amount equal to the sum of—

10 “(1) \$150,

11 “(2) 50 percent of the designated wages of such
 12 individual for the taxable year,

13 “(3) 50 percent of the designated self-employ-
 14 ment income of such individual for the taxable year,
 15 and

16 “(4) 50 percent of the designated earned in-
 17 come credit.

18 “(b) LIMITATIONS.—

19 “(1) AMOUNT.—The amount determined under
 20 paragraphs (2) and (3) of subsection (a) with re-
 21 spect to such individual for any taxable year may
 22 not exceed the excess (if any) of—

23 “(A) \$600, over

1 “(B) the sum of the amounts received by
 2 the Secretary on behalf of such individual under
 3 subparagraphs (A) and (B) of section
 4 3101(a)(2) and subparagraphs (A) and (B) of
 5 1401(a)(2) for the taxable year.

6 “(2) FAILURE TO MAKE VOLUNTARY CONTRIBU-
 7 TIONS.—In the case of a part B eligible individual
 8 with respect to whom the amount of wages des-
 9 ignated under section 3101(a)(2)(C) plus the
 10 amount self-employment income designated under
 11 section 1401(a)(2)(C) for the taxable year is zero,
 12 the credit to which such individual is entitled under
 13 this section shall be equal to zero.

14 “(c) DEFINITIONS.—For purposes of this section—

15 “(1) PART B ELIGIBLE INDIVIDUAL.—The term
 16 ‘part B eligible individual’ means, for any calendar
 17 year, an individual who is an eligible individual (as
 18 defined in section 251(a)(2) of the Social Security
 19 Act) for such calendar year.

20 “(2) DESIGNATED WAGES.—The term ‘des-
 21 ignated wages’ means with respect to any taxable
 22 year the amount designated under section
 23 3101(a)(2)(C).

24 “(3) DESIGNATED SELF-EMPLOYMENT IN-
 25 COME.—The term ‘designated self-employment in-

1 come’ means with respect to any taxable year the
 2 amount designated under section 1401(a)(2)(C) for
 3 such taxable year.

4 “(4) DESIGNATED EARNED INCOME CREDIT.—
 5 The term ‘designated earned income credit’ means
 6 the amount of the credit allowed under section 32
 7 for the taxable year that is designated by the part
 8 B eligible individual in the same manner as de-
 9 scribed in section 251(c) of the Social Security Act.

10 “(d) CREDIT USED ONLY FOR INDIVIDUAL SECU-
 11 RITY ACCOUNT.—For purposes of this title, the credit al-
 12 lowed under this section with respect to any part B eligible
 13 individual—

14 “(1) shall not be treated as a credit allowed
 15 under this part, but

16 “(2) shall be treated as an overpayment of tax
 17 under section 6401(b)(3) which may, in accordance
 18 with section 6402(l), only be transferred to an indi-
 19 vidual security account established under part B of
 20 title II of the Social Security Act with respect to
 21 such individual.”.

22 (2) CONTRIBUTION OF EITC AMOUNTS TO INDIVIDUAL
 23 SECURITY ACCOUNTS.—Section 32 of such
 24 Code (relating to earned income) is amended by add-
 25 ing at the end the following new subsection:

1 “(n) CONTRIBUTION TO INDIVIDUAL SECURITY AC-
2 COUNT.—

3 “(1) IN GENERAL.—An eligible part B indi-
4 vidual who is allowed a credit under this section may
5 designate all or a portion of such credit as a con-
6 tribution to the individual security account estab-
7 lished on behalf of such individual.

8 “(2) CREDIT USED ONLY FOR INDIVIDUAL SE-
9 CURITY ACCOUNT.—For purposes of this title, the
10 amount designated under paragraph (1) with respect
11 to any part B eligible individual—

12 “(A) shall not be treated as a credit al-
13 lowed under this section, but

14 “(B) shall be treated as an overpayment of
15 tax under section 6401(b)(3) which may, in ac-
16 cordance with section 6402(l), only be trans-
17 ferred to an individual security account estab-
18 lished under part B of title II of the Social Se-
19 curity Act with respect to such individual.”.

20 (3) CONTRIBUTION OF CREDITED AMOUNTS TO
21 INDIVIDUAL SECURITY ACCOUNT.—

22 (A) CREDITED AMOUNTS TREATED AS
23 OVERPAYMENT OF TAX.—Subsection (b) of sec-
24 tion 6401 (relating to excessive credits) is

1 amended by adding at the end the following
2 new paragraph:

3 “(3) SPECIAL RULE FOR CREDIT UNDER SEC-
4 TIONS 32 AND 54.—Subject to the provisions of sec-
5 tion 6402(l), the following sum shall be considered
6 an overpayment—

7 “(A) SECTION 54 CREDIT.—The amount of
8 any credit allowed under section 54 for any tax-
9 able year, plus

10 “(B) SECTION 32 DESIGNATED EARNED IN-
11 COME CREDIT CONTRIBUTION.—The amount of
12 the earned income credit designated as a con-
13 tribution to an individual security account
14 under section 32(n) for the taxable year.”.

15 (B) TRANSFER OF CREDIT AMOUNT TO IN-
16 DIVIDUAL SECURITY ACCOUNT.—Section 6402
17 of such Code (relating to authority to make
18 credits or refunds) is amended by adding at the
19 end the following new subsection:

20 “(l) OVERPAYMENTS ATTRIBUTABLE TO INDIVIDUAL
21 SECURITY ACCOUNT CREDIT.—In the case of any over-
22 payment described in section 6401(b)(3) with respect to
23 any individual, the Secretary shall transfer for crediting
24 by the Commissioner of Social Security to the individual

1 security account of an such individual, an amount equal
 2 to the amount of such overpayment.”.

3 (4) NOTICE TO EITC RECIPIENTS OF MATCHING
 4 CONTRIBUTIONS TO INDIVIDUAL SECURITY AC-
 5 COUNTS.—In connection with information and tax
 6 forms relating to the credit allowed under section 32
 7 of the Internal Revenue Code of 1986, the Secretary
 8 of the Treasury shall provide notice of the avail-
 9 ability of matching contributions pursuant to section
 10 54 of such Code (as added by subsection (a) of this
 11 section) to individual security accounts under part B
 12 of title II of the Social Security Act.

13 (5) CONFORMING AMENDMENTS.—

14 (A) Section 1324(b)(2) of title 31, United
 15 States Code, is amended by inserting before the
 16 period at the end “, or enacted by the 21st
 17 Century Retirement Act”.

18 (B) The table of subparts for part IV of
 19 subchapter A of chapter 1 of the Internal Rev-
 20 enue Code of 1986 is amended by adding at the
 21 end the following new item:

“Subpart H. Individual Security Account Credits.”.

22 (6) EFFECTIVE DATE.—The amendments made
 23 by this subsection shall apply to refunds payable
 24 after December 31, 2002.

1 (d) TAX TREATMENT OF INDIVIDUAL SECURITY SYS-
2 TEM.—

3 (1) IN GENERAL.—Subchapter F of chapter 1
4 of the Internal Revenue Code of 1986 (relating to
5 exempt organizations) is amended by adding at the
6 end the following new part:

7 **“PART IX—INDIVIDUAL SECURITY SYSTEM**

“Sec. 531. Individual security fund.

“Sec. 532. Individual security accounts.

8 **“SEC. 531. INDIVIDUAL SECURITY FUND AND FEDERALLY-**
9 **ADMINISTERED INDIVIDUAL SECURITY AC-**
10 **COUNTS.**

11 “The Individual Security Fund established under sec-
12 tion 261 of the Social Security Act shall be exempt from
13 taxation under this subtitle.

14 **“SEC. 532. INDIVIDUAL SECURITY ACCOUNTS.**

15 “(a) IN GENERAL.—For purposes of this section, the
16 term ‘individual security account’ means a Federally-ad-
17 ministered individual security account and a privately-ad-
18 ministered security account.

19 “(b) INDIVIDUAL SECURITY ACCOUNTS DEFINED.—
20 For purposes of subsection (a)—

21 “(1) FEDERALLY-ADMINISTERED SECURITY AC-
22 COUNT.—The term ‘Federally-administered indi-
23 vidual security account’ means the account estab-
24 lished under section 251 of the Social Security Act.

1 “(2) PRIVATELY-ADMINISTERED SECURITY AC-
2 COUNT.—The term ‘privately-administered individual
3 security account’ means a trust created or organized
4 in the United States exclusively for the benefit of an
5 individual or his beneficiaries, but only if the written
6 governing instrument creating the trust meets the
7 following requirements:

8 “(A) Except in the case of rollover con-
9 tributions from another individual security ac-
10 count of such individual—

11 “(i) no contribution will be accepted
12 unless it is in cash,

13 “(ii) contributions will not be accepted
14 for the taxable year in excess of the sum
15 of—

16 “(I) the amounts collected with
17 respect to such beneficiary under sec-
18 tions 3101(a)(2) and 1401(a)(2), and

19 “(II) the amounts transferred to
20 such account under section 6402(l),
21 and

22 “(iii) any contributions with respect to
23 an account holder which are not accepted
24 pursuant to this paragraph are promptly
25 refunded directly to the account holder.

1 “(B) The trustee is a institution which is
2 certified under subpart 3 of subtitle B of title
3 II of the Social Security Act.

4 “(C) No part of the trust funds will be in-
5 vested in life insurance contracts.

6 “(D) The interest of an individual in the
7 balance in his account is nonforfeitable.

8 “(E) The assets of the trust will not be
9 commingled with other property except in a
10 common trust fund or common investment
11 fund.

12 “(c) CONTRIBUTIONS.—

13 “(1) IN GENERAL.—No deduction shall be al-
14 lowed for contributions credited to an individual se-
15 curity account under part B of title II of the Social
16 Security Act or amounts transferred to such account
17 under section 6402(l).

18 “(2) ROLLOVERS.—

19 “(A) ROLLOVER FROM PRIVATELY-ADMIN-
20 ISTERED INDIVIDUAL SECURITY ACCOUNT.—

21 The entire balance of an individual security ac-
22 count of the account holder may be rolled over
23 to another individual security account of the ac-
24 count holder.

1 “(B) ROLLOVER OF INHERITANCE.—Any
2 portion of a distribution to an heir from a Fed-
3 erally-administered individual security account
4 made by reason of the death of the beneficiary
5 of such account may be rolled over to the indi-
6 vidual security account of the heir.

7 “(d) TAX TREATMENT OF ACCOUNTS.—

8 “(1) EXEMPTION FROM TAX.—An individual se-
9 curity account is exempt from taxation under this
10 subtitle unless such account has ceased to be an in-
11 dividual security account by reason of paragraph
12 (2). Notwithstanding the preceding sentence, any
13 such account is subject to the taxes imposed by sec-
14 tion 511 (relating to imposition of tax on unrelated
15 business income of charitable, etc. organizations).

16 “(2) ACCOUNT TERMINATIONS.—Rules similar
17 to the rules of paragraphs (2) and (4) of section
18 408(e) shall apply to privately-administered indi-
19 vidual security accounts, and any amount treated as
20 distributed under such rules shall be includible in
21 gross income and shall not be treated as a social se-
22 curity benefit for purposes of section 86.

23 “(3) ROLLOVER CONTRIBUTION.—An amount is
24 described in this paragraph as a rollover contribu-

tion if it meets the requirements of subparagraphs (A) and (B).

“(A) IN GENERAL.—The requirements of this subparagraph are met with respect to an amount paid or distributed from an individual security account to the account holder only if the entire amount in such account is received by the account holder and is paid into another individual security account for the benefit of such holder not later than the 60th day after the day on which the holder receives the payment or distribution.

“(B) LIMITATION.—This paragraph shall not apply to any amount described in subparagraph (A) received by an individual from a privately-administered individual security account if, at any time during the 1-year period ending on the day of such receipt, such individual received on 3 other occasions any other amount described in subparagraph (A) from an individual security account which was not includible in the individual’s gross income because of the application of this paragraph.

“(e) DISTRIBUTIONS.—

1 “(1) IN GENERAL.—The portion of any dis-
2 tribution from an individual security account under
3 section 253 of the Social Security Act which is at-
4 tributable to amounts contributed to such account
5 under section 3101(a)(2) (other than subparagraph
6 (C) thereof) and section 1401(a)(2) (other than sub-
7 paragraph (C) thereof), together with earnings
8 thereon, shall be includible in gross income as a so-
9 cial security benefit for purposes of section 86.

10 “(2) VOLUNTARY CONTRIBUTIONS.—The por-
11 tion of any distribution from an individual security
12 account under section 253 of the Social Security Act
13 which is attributable to amounts contributed to such
14 account under section 3101(a)(2)(C), section
15 1401(a)(2)(C), and section 6402(l), together with
16 earnings thereon, shall not be includible in gross in-
17 come.

18 “(3) PERIOD IN WHICH DISTRIBUTIONS MUST
19 BE MADE FROM ACCOUNT OF DECEDENT.—In the
20 case of amounts remaining in an individual security
21 account from which distributions began before the
22 death of the beneficiary, rules similar to the rules of
23 section 401(a)(9)(B) shall apply to distributions of
24 such remaining amounts.

1 “(4) **ROLLOVERS.**—Paragraph (1) shall not
 2 apply to amounts rolled over under subsection (c)(2)
 3 in a direct transfer by the Commissioner of Social
 4 Security, under regulations which the Commissioner
 5 shall prescribe.

6 “(f) **ACCOUNT BENEFICIARY.**—For purposes of this
 7 section, the account beneficiary is the individual for whose
 8 benefit the individual security account is established.”.

9 (2) **CLERICAL AMENDMENT.**—The table of
 10 parts for subchapter F of chapter 1 of the Internal
 11 Revenue Code of 1986 is amended by adding after
 12 the item relating to part VIII the following new
 13 item:

 “Part IX. Individual security system.”.

14 (3) **EFFECTIVE DATE.**—The amendments made
 15 by this subsection shall apply to taxable years begin-
 16 ning after December 31, 2002.

17 **SEC. 3. MINIMUM SOCIAL SECURITY BENEFIT.**

18 Section 215 of the Social Security Act (42 U.S.C.
 19 415) is amended by adding at the end the following:

20 “Minimum Monthly Insurance Benefit

21 “(j)(1) Notwithstanding the preceding provisions of
 22 this section—

23 “(A) the primary insurance amount of a quali-
 24 fied individual shall be equal to the greater of—

1 “(i) the primary insurance amount deter-
2 mined under this section (without regard to this
3 subsection), or

4 “(ii) $\frac{1}{12}$ of the applicable percentage of
5 the applicable amount, and

6 “(B) any recomputation of the primary insur-
7 ance amount of a qualified individual shall not result
8 in a primary insurance amount less than the pri-
9 mary insurance amount as in effect immediately
10 prior to such recomputation.

11 “(2) For purposes of this subsection—

12 “(A) The term ‘qualified individual’ means an
13 individual—

14 “(i) who initially becomes eligible for old-
15 age or disability insurance benefits, or dies (be-
16 fore becoming eligible for such benefits) for a
17 month beginning after December 31, 2009, and

18 “(ii) who has at least 80 quarters of cov-
19 erage.

20 “(B) The term ‘applicable amount’ means, in
21 connection with an individual, \$8,259 adjusted
22 annually—

23 “(i)(I) with respect to an individual whose
24 initial month of eligibility occurs in a year prior
25 to 2011, by the CPI increase percentage deter-

1 mined under section 215(i) for 1996 through
2 the year prior to such year of eligibility; and

3 “(II) with respect to an individual whose
4 initial month of eligibility occurs in a year after
5 2010, by the CPI increase percentage deter-
6 mined under such section for 1996 through
7 2009, and by the wage increase percentage de-
8 termined under such section for 2009 through
9 the second year prior to the year of such eligi-
10 bility; and

11 “(ii) by the CPI increase percentage deter-
12 mined under such section for all years begin-
13 ning with the year of an individual’s initial eli-
14 gibility.

15 “(C)(i) The term ‘applicable percentage’ means,
16 for computations and recomputations of a qualified
17 individual’s primary insurance amount under this
18 section whose initial eligibility occurs in any calendar
19 year specified in the table under clause (ii), the sum
20 of—

21 “(I) the applicable base percentage speci-
22 fied in such table in connection with such year,
23 plus

24 “(II) the product derived by multiplying
25 the applicable percentage increment specified in

1 such table in connection with such year by the
 2 ratio of the number of such individual’s quar-
 3 ters of coverage (if any) in excess of the min-
 4 imum number of quarters required under sub-
 5 paragraph (A)(ii) but not in excess of twice
 6 such minimum, to such minimum.

7 “(ii) For purposes of clause (i), the applicable
 8 base percentages and applicable percentage incre-
 9 ments are set forth in connection with calendar
 10 years in the following table:

“If the calendar year is:	The applicable base percentage is:	And the applicable percentage incre- ment is:
2006	12 percent	8 percent
2007	24 percent	16 percent
2008	36 percent	24 percent
2009	48 percent	32 percent
After 2009	60 percent	40 percent.”

11 **SEC. 4. REDUCTION IN THE AMOUNT OF CERTAIN TRANS-**
 12 **FERS TO MEDICARE TRUST FUND.**

13 Subparagraph (A) of section 121(e)(1) of the Social
 14 Security Amendments of 1983 (42 U.S.C. 401 note), as
 15 amended by section 13215(c)(1) of the Omnibus Budget
 16 Reconciliation Act of 1993, is amended—

17 (1) in clause (ii), by striking “the amounts”
 18 and inserting “the applicable percentage of the
 19 amounts”; and

20 (2) by adding at the end the following: “For
 21 purposes of clause (ii), the applicable percentage for

1 a year is equal to 100 percent, reduced (but not
 2 below zero) by 10 percentage points for each year
 3 after 2009.”.

4 **SEC. 5. INCREASE IN NUMBER OF YEARS TAKEN INTO AC-**
 5 **COUNT IN DETERMINING AVERAGE INDEXED**
 6 **MONTHLY EARNINGS.**

7 (a) IN GENERAL.—Section 215(b) of the Social Secu-
 8 rity Act (42 U.S.C. 415(b)(1)) is amended—

9 (1) by striking subparagraph (B) of paragraph
 10 (1) and inserting the following:

11 “(B) the product derived by multiplying—

12 “(i) the number of elapsed years, reduced
 13 (in any case to which paragraph (2)(A)(i) ap-
 14 plies) to the extent provided in paragraph
 15 (2)(C), by

16 “(ii) 12.”;

17 (2) in subparagraph (A) of paragraph (2), by
 18 striking all of such subparagraph as precedes
 19 “Clause (ii),” and inserting the following:

20 “(2)(A) The number of an individual’s benefit com-
 21 putation years equals—

22 “(i) in the case of an individual who is entitled
 23 to old-age insurance benefits (except as provided in
 24 the second sentence of this subparagraph), or who

1 has died, the number of his computation base years,
 2 and

3 “(ii) in the case of an individual who is entitled
 4 to disability insurance benefits, the number of
 5 elapsed years reduced by the number of years equal
 6 to one-fifth of the number of elapsed years (dis-
 7 regarding any resulting fractional part of a year),
 8 but not by more than 5 years.”; and

9 (3) by adding at the end of paragraph (2) the
 10 following new subparagraph:

11 “(C)(i) For purposes of clause (i) of paragraph
 12 (1)(B), the number of elapsed years shall be reduced pur-
 13 suant to such clause by the number of years specified in
 14 connection with the calendar year in which such individual
 15 becomes eligible for old-age insurance benefits, or dies (be-
 16 fore becoming eligible for such benefits), as set forth in
 17 the following table:

“If such calendar year is:	The applicable number of years is:
2000 or 2001	5
2002 or 2003	4
2004 or 2005	3
2006 or 2007	2
2008 or 2009	1
After 2009	0.

18 “(ii) The reduction provided in clause (i) of
 19 paragraph (1)(B) shall not apply in any case in
 20 which—

1 “(I) the individual is married at the time
 2 the individual becomes eligible for old-age insur-
 3 ance benefits or dies (before becoming eligible
 4 for such benefits), and

5 “(II) the total of the wages paid in and
 6 self-employment income credited to the pre-
 7 ceding calendar year with respect to the indi-
 8 vidual is less than the total of the wages paid
 9 in and self-employment income credited to such
 10 year with respect to the individual’s spouse.”.

11 (c) EFFECTIVE DATE.—The amendments made by
 12 this section shall apply with respect to individuals attain-
 13 ing early retirement age (as defined in section 216(l)(2)
 14 of the Social Security Act) or dying after December 31,
 15 2001.

16 **SEC. 6. ACTUARIAL ADJUSTMENT FOR RETIREMENT.**

17 (a) EARLY RETIREMENT.—

18 (1) IN GENERAL.—Section 202(q) of the Social
 19 Security Act (42 U.S.C. 402(q)) is amended—

20 (A) in paragraph (1)(A), by striking “ $\frac{5}{9}$ ”
 21 and inserting “the applicable fraction (deter-
 22 mined under paragraph (12))”; and

23 (B) by adding at the end the following:

1 “(12) For purposes of paragraph (1)(A), the ‘applica-
 2 ble fraction’ for an individual who attains the age of 62
 3 in—

4 “(A) any year before 2002, is $\frac{5}{9}$;

5 “(B) 2002, is $\frac{7}{12}$;

6 “(C) 2003, is $\frac{11}{18}$;

7 “(D) 2004, is $\frac{23}{36}$;

8 “(E) 2005, is $\frac{2}{3}$; and

9 “(F) 2006 or any succeeding year, is $\frac{25}{36}$.”.

10 (2) MONTHS BEYOND FIRST 36 MONTHS.—Sec-
 11 tion 202(q) of such Act (42 U.S.C. 402(q)(9)) (as
 12 amended by paragraph (1)) is amended—

13 (A) in paragraph (9)(A), by striking “five-
 14 twelfths” and inserting “the applicable fraction
 15 (determined under paragraph (13))”; and

16 (B) by adding at the end the following:

17 “(13) For purposes of paragraph (9)(A), the ‘applica-
 18 ble fraction’ for an individual who attains the age of 62
 19 in—

20 “(A) any year before 2002, is $\frac{5}{12}$;

21 “(B) 2002, is $\frac{16}{36}$;

22 “(C) 2003, is $\frac{16}{36}$;

23 “(D) 2004, is $\frac{17}{36}$;

24 “(E) 2005, is $\frac{17}{36}$; and

25 “(F) 2006 or any succeeding year, is $\frac{1}{2}$.”.

1 (3) EFFECTIVE DATE.—The amendments made
2 by paragraphs (1) and (2) shall apply to individuals
3 who attain the age of 62 in years after 2001.

4 (b) DELAYED RETIREMENT.—Section 202(w)(6) of
5 the Social Security Act (42 U.S.C. 402(w)(6)) is
6 amended—

7 (1) in subparagraph (C), by striking “and” at
8 the end;

9 (2) in subparagraph (D), by striking “2004.”
10 and inserting “2004 and before 2007;” and

11 (3) by adding at the end the following:

12 “(E) $17/24$ of 1 percent in the case of an indi-
13 vidual who attains the age of 62 in a calendar year
14 after 2006 and before 2009;

15 “(F) $3/4$ of 1 percent in the case of an indi-
16 vidual who attains the age of 62 in a calendar year
17 after 2008 and before 2011;

18 “(G) $19/24$ of 1 percent in the case of an indi-
19 vidual who attains the age of 62 in a calendar year
20 after 2010 and before 2013; and

21 “(H) $5/6$ of 1 percent in the case of an indi-
22 vidual who attains the age of 62 in a calendar year
23 after 2012.”.

1 **SEC. 7. IMPROVEMENTS IN PROCESS FOR COST-OF-LIVING**
2 **ADJUSTMENTS.**

3 (a) ANNUAL DECLARATIONS OF ACHIEVED SUBSTI-
4 TUTION BIAS CORRECTION AND RETAINED UPPER LEVEL
5 SUBSTITUTION BIAS.—

6 (1) ACHIEVED SUBSTITUTION BIAS CORREC-
7 TION.—Not later than October 1, 2002, and annu-
8 ally thereafter, the Commissioner of the Bureau of
9 Labor Statistics shall publish in the Federal Reg-
10 ister an estimate of the number of percentage points
11 by which the annual rate of change in the Consumer
12 Price Index is reduced below the rate it would other-
13 wise have attained by reason of adjustments in the
14 determination of such index instituted by the Bu-
15 reau after January 31, 2001.

16 (2) UPPER LEVEL SUBSTITUTION BIAS.—Not
17 later than August 1, 2002, and annually thereafter,
18 the Commissioner of the Bureau of Labor Statistics
19 shall publish in the Federal Register an estimate of
20 the upper level substitution bias retained in the Con-
21 sumer Price Index, expressed in terms of a percent-
22 age point effect on the annual rate of change in the
23 Consumer Price Index for the preceding calendar
24 year determined through the use of a superlative
25 index that accounts for changes that consumers

1 make in the quantities of goods and services con-
2 sumed.

3 (b) FUNDING FOR CPI IMPROVEMENTS.—

4 (1) IN GENERAL.—There is hereby appro-
5 priated to the Bureau of Labor Statistics in the De-
6 partment of Labor, for each of fiscal years 2002,
7 2003, and 2004, \$30,000,000 for use by the Bureau
8 for the following purposes:

9 (A) Research, evaluation, and implementa-
10 tion of a superlative index to estimate upper
11 level substitution bias in the Consumer Price
12 Index.

13 (B) Expansion of the Consumer Expendi-
14 ture Survey and the Point of Purchase Survey.

15 (C) Implementation of revisions to the
16 Consumer Price Index with respect to programs
17 under title II of the Social Security Act (42
18 U.S.C. 401 et seq.).

19 (2) REPORTS.—The Commissioner of the Bu-
20 reau of Labor Statistics shall submit reports regard-
21 ing the use of appropriations made under paragraph
22 (1) to the Committee on Appropriations of the
23 House of Representative and the Committee on Ap-
24 propriations of the Senate upon the request of each
25 Committee.

1 (c) INFORMATION SHARING.—The Commissioner of
2 the Bureau of Labor Statistics may secure directly from
3 the Secretary of Commerce information necessary for pur-
4 poses of calculating the Consumer Price Index. Upon re-
5 quest of the Commissioner of the Bureau of Labor Statis-
6 tics, the Secretary of Commerce shall furnish that infor-
7 mation to the Commissioner.

8 (d) ADMINISTRATIVE ADVISORY COMMITTEE.—The
9 Bureau of Labor Statistics shall, in consultation with the
10 National Bureau of Economic Research, the American
11 Economic Association, and the National Academy of Stat-
12 isticians, establish an administrative advisory committee.
13 The advisory committee shall periodically advise the Bu-
14 reau of Labor Statistics regarding revisions of the Con-
15 sumer Price Index and conduct research and experimen-
16 tation with alternative data collection and estimating ap-
17 proaches.

18 (e) MODIFICATIONS TO COST-OF-LIVING INDEXING
19 OF BENEFITS.—

20 (1) IN GENERAL.—Section 215(i)(1)(D) of the
21 Social Security Act (42 U.S.C. 415(i)(1)(D)) is
22 amended to read as follows:

23 “(D) the term ‘CPI increase percentage’, with
24 respect to a base quarter or cost-of-living computa-
25 tion quarter in any calendar year, means—

1 “(i) the percentage (rounded to the nearest
2 one-hundredth of 1 percent) by which the Con-
3 sumer Price Index for that quarter (as prepared
4 by the Department of Labor) exceeds such
5 index for the most recent prior calendar quarter
6 which was a base quarter under subparagraph
7 (A)(ii) or, if later, the most recent cost-of-living
8 computation quarter under subparagraph (B),

9 “(ii) reduced (but not below zero) by the
10 upper level substitution bias (rounded to the
11 nearest one-hundredth of 1 percent) retained in
12 such index (as published by the Secretary of
13 Labor pursuant to section 8(a)(2) of the 21st
14 Century Retirement Security Act in connection
15 with the annual rate of change in the Consumer
16 Price Index for the preceding calendar year), to
17 the extent applicable to such percentage, and

18 “(iii) reduced further (but not below zero)
19 by the excess (if any) of 0.33 percentage points
20 over the sum of—

21 “(I) the reduction in percentage
22 points undergone by the percentage de-
23 scribed in clause (i) pursuant to clause (ii),
24 and

1 “(II) the reduction in percentage
 2 points undergone by the percentage de-
 3 scribed in clause (i) (rounded to the near-
 4 est one-hundredth of 1 percent) attrib-
 5 utable to the achieved substitution bias
 6 correction (as last published by the Sec-
 7 retary of Labor pursuant to section 8(a)(1)
 8 of the 21st Century Retirement Security
 9 Act), to the extent applicable to such per-
 10 centage.”.

11 (2) EFFECTIVE DATE.—The amendment made
 12 by paragraph (1) shall apply with respect to in-
 13 creases under section 215(i) of the Social Security
 14 Act effective with the month of December of years
 15 after 2001.

16 (f) CONSUMER PRICE INDEX ADJUSTMENTS APPLI-
 17 CABLE TO INTERNAL REVENUE CODE PROVISIONS.—

18 (1) IN GENERAL.—Paragraph (3) of section
 19 1(f) of the Internal Revenue Code of 1986 (defining
 20 cost-of-living adjustment) is amended by striking the
 21 period at the end and inserting a comma and by in-
 22 serting at the end the following flush material:

23 “reduced (but not below zero) by the number of
 24 percentage points determined under paragraph

1 (9) for the calendar year for which such adjust-
2 ment is being determined.”.

3 (2) LIMITATION ON INCREASES.—Subsection (f)
4 of section 1 of such Code is amended by adding at
5 the end the following new paragraph:

6 “(9) LIMITATION ON INCREASES IN CPI.—

7 “(A) IN GENERAL.—The number of per-
8 centage points determined under this paragraph
9 for any calendar year is—

10 “(i) the upper level substitution bias,
11 to the extent applicable to the percentage
12 adjustment under paragraph (3), plus

13 “(ii) the excess (if any) of 0.33 per-
14 centage points over the sum of—

15 “(I) such upper level substitution
16 bias, and

17 “(II) the achieved substitution
18 bias correction, to the extent applica-
19 ble to the percentage adjustment
20 under paragraph (3).

21 “(B) COMPUTATION OF BASE TO REFLECT
22 LIMITATION.—The Secretary shall adjust the
23 number taken into account under paragraph
24 (3)(B) so that any increase which is not taken
25 into account by reason of subparagraph (A)

1 shall not be taken into account at any time so
2 as to allow such increase for any period.

3 “(C) DEFINITIONS.—For purposes of this
4 paragraph, the terms ‘achieved substitution bias
5 correction’ and ‘upper level substitution bias’
6 mean, with respect to any 12-month period end-
7 ing on August 31 of a calendar year, the
8 achieved substitution bias correction and upper
9 level substitution bias most recently published
10 by the Secretary of Labor pursuant to section
11 8(a) of the 21st Century Retirement Security
12 Act for a period ending on or before August 31
13 of such calendar year.”.

14 (g) CORRESPONDING AMENDMENTS TO OTHER PRO-
15 VISIONS UTILIZING THE CONSUMER PRICE INDEX.—

16 (1) IN GENERAL.—For purposes of determining
17 the amount of any cost-of-living adjustment which
18 takes effect for benefits payable after December 31,
19 2002, with respect to any benefit described in para-
20 graph (5)—

21 (A) any increase in the relevant index (de-
22 termined without regard to this subsection)
23 shall be reduced by the number of percentage
24 points determined under paragraph (2), and

1 (B) the amount of the increase in such
2 benefit shall be equal to the product of—

3 (i) the increase in the relevant index
4 (as reduced under subparagraph (A)), and

5 (ii) the average such benefit for the
6 preceding calendar year under the program
7 described in paragraph (5) which provides
8 such benefit.

9 (2) LIMITATION ON INCREASES.—

10 (A) IN GENERAL.—The number of percent-
11 age points determined under this paragraph for
12 any calendar year is—

13 (i) the upper level substitution bias, to
14 the extent applicable to the percentage ad-
15 justment under the relevant index, plus

16 (ii) the excess (if any) of 0.33 per-
17 centage points over the sum of—

18 (I) such upper level substitution
19 bias, and

20 (II) the achieved substitution
21 bias correction, to the extent applica-
22 ble to the percentage adjustment
23 under the relevant index,.

24 (B) COMPUTATION OF BASE TO REFLECT
25 LIMITATION.—Any increase which is not taken

1 into account by reason of subparagraph (A)
2 shall not be taken into account at any time so
3 as to allow such increase for any period.

4 (3) PARAGRAPH (1) TO APPLY ONLY TO COM-
5 PUTATION OF BENEFIT AMOUNTS.—Paragraph (1)
6 shall apply only for purposes of determining the
7 amount of benefits and not for purposes of
8 determining—

9 (A) whether a threshold increase in the rel-
10 evant index has been met, or

11 (B) increases in amounts under other pro-
12 visions of law not described in paragraph (5)
13 which operate by reference to increases in such
14 benefits.

15 (4) DEFINITIONS.—For purposes of this
16 subsection—

17 (A) COST-OF-LIVING ADJUSTMENT.—The
18 term “cost-of-living adjustment” means any ad-
19 justment in the amount of benefits described in
20 paragraph (5) which is determined by reference
21 to changes in an index.

22 (B) INDEX.—

23 (i) INDEX.—The term “index” means
24 the Consumer Price Index and any other
25 index of price or wages.

1 (ii) RELEVANT INDEX.—The term
2 “relevant index” means the index on the
3 basis of which the amount of the cost-of-
4 living adjustment is determined.

5 (C) ACHIEVED SUBSTITUTION BIAS COR-
6 RECTION; UPPER LEVEL SUBSTITUTION BIAS.—
7 The terms ‘achieved substitution bias correc-
8 tion’ and ‘upper level substitution bias’ mean,
9 with respect to the applicable 12-month period
10 preceding a cost-of-living adjustment, the
11 achieved substitution bias correction and upper
12 level substitution bias most recently published
13 by the Secretary of Labor pursuant to section
14 8(a) of the 21st Century Retirement Security
15 Act.

16 (5) BENEFITS TO WHICH SUBSECTION AP-
17 PLIES.—For purposes of this subsection, the benefits
18 described in this paragraph are—

19 (A) retired and retainer pay subject to ad-
20 justment under section 1401a of title 10,
21 United States Code;

22 (B) civil service retirement benefits under
23 section 8340 of title 5, United States Code, for-
24 eign service retirement benefits under section
25 826 of the Foreign Service Act of 1980, Central

1 Intelligence Agency retirement benefits under
2 part J of the Central Intelligence Agency Re-
3 tirement Act of 1964 for certain employees, and
4 any other benefits under any similar provision
5 under any retirement system for employees of
6 the government of the United States;

7 (C) Federal workers' compensation under
8 section 8146a of title 5, United States Code;

9 (D) benefits under section 3(a), 4(a), or
10 4(f) of the Railroad Retirement Act of 1974;
11 and

12 (E) benefits and expenditure limits under
13 title XVIII or XIX of the Social Security Act.

14 (6) BENEFIT.—For purposes of this section,
15 the term “benefit” includes a payment.

16 (h) RECAPTURE TO FEDERAL OLD-AGE AND SUR-
17 VIVORS INSURANCE TRUST FUND.—Section 201 of the
18 Social Security Act (42 U.S.C. 401) is amended by adding
19 at the end the following new subsection:

20 “(n) On July 1 of each calendar year specified in the
21 following table, the Secretary of the Treasury shall trans-
22 fer, from the general fund of the Treasury to the Federal
23 Old-Age and Survivors Insurance Trust Fund, an amount
24 equal to the applicable percentage for such year, specified

1 in such table, of the total wages paid in and self-employ-
 2 ment income credited to such year.

“For a calendar year—	The applicable percentage for the year is—
After 2001 and before 2003	0.13 percent
After 2002 and before 2004	0.15 percent
After 2003 and before 2005	0.20 percent
After 2004 and before 2006	0.24 percent
After 2005 and before 2007	0.28 percent
After 2006 and before 2008	0.32 percent
After 2007 and before 2009	0.35 percent
After 2008 and before 2010	0.38 percent
After 2009 and before 2016	0.47 percent
After 2015 and before 2040	0.55 percent
After 2039 and before 2060	0.66 percent
After 2059	0.80 percent.”.

3 **SEC. 8. ADJUSTMENT TO BENEFIT FORMULA FACTORS.**

4 Section 215(a)(1)(B) of the Social Security Act (42
 5 U.S.C. 415(a)(1)(B)) is amended—

6 (1) by redesignating clause (iii) as clause (vi);

7 and

8 (2) by inserting after clause (ii) the following:

9 “(iii) For an individual who initially becomes eligible
 10 for old-age or disability insurance benefits, or who dies
 11 (before becoming eligible for such benefits), in any cal-
 12 endar year after 2008, each of the amounts otherwise es-
 13 tablished for purposes of clauses (i), (ii), and (iii) of sub-
 14 paragraph (A) under this subparagraph shall be sub-
 15 stituted with the product derived by successively multi-
 16 plying, once for each year of the factoring period for such
 17 individual—

18 “(I) such amount (after applying this clause for
 19 earlier years of the factoring period), by

1 “(II) the designated factor for such year.

2 “(iv) For purposes of clause (iii), the term ‘factoring
3 period’ means, for an individual, the period beginning with
4 2012 and ending with the earlier of—

5 “(I) the year of the individual’s initial eligibility
6 or death, or

7 “(II) 2060.

8 “(v) For purposes of clause (iii), the term ‘designated
9 factor’ means—

10 “(I) for a year prior to 2031, 0.975, except
11 that, for any such year, such factor shall be 1.000
12 with respect to amounts otherwise established for
13 purposes of clause (i) of subparagraph (A) under
14 this subparagraph, and

15 “(II) for a year after 2030, 0.985.”.

16 **SEC. 9. ADJUSTMENTS TO BEND POINTS IN DETERMINING**
17 **PRIMARY INSURANCE AMOUNTS.**

18 (a) **ADDITIONAL BEND POINT.**—Section
19 215(a)(1)(A) of the Social Security Act (42 U.S.C.
20 415(a)(1)(A)) is amended—

21 (1) in clause (ii)—

22 (A) by striking “32 percent” and inserting
23 “70 percent”; and

24 (B) by striking “and” at the end;

25 (2) in clause (iii)—

1 (A) by striking “15 percent” and inserting
2 “20 percent”; and

3 (B) by striking “clause (ii),” and inserting
4 the following: “clause (ii) but do not exceed the
5 amount established for purposes of this clause
6 by subparagraph (B), and”; and

7 (3) by inserting after clause (iii) the following:

8 “(iv) 15 percent of the individual’s average in-
9 dexed monthly earnings to the extent that such
10 earnings exceed the amount established for purposes
11 of clause (iii),”.

12 (b) INITIAL LEVEL OF ADDITIONAL BEND POINT.—
13 Section 215(a)(1)(B) of such Act (42 U.S.C.
14 415(a)(1)(B)) is amended—

15 (1) by redesignating clause (iii) as clause (iv);

16 (2) by inserting after clause (ii) the following
17 new clause:

18 “(iii) For individuals who initially become eligible for
19 old-age or disability insurance benefits, or who die (before
20 becoming eligible for such benefits), in any calendar year
21 after 2008, the amount established for purposes of clause
22 (ii) of subparagraph (A) for such calendar year after 2008
23 shall be 196 percent of the amount established for pur-
24 poses of clause (i) for such calendar year.”; and

1 (3) in clause (iv) (as redesignated by paragraph
2 (1)), by striking “clause (ii)” and inserting “clauses
3 (ii) and (iii)”.

4 **SEC. 10. MODIFICATION TO PIA FORMULA TO REFLECT**
5 **CHANGES TO LIFE EXPECTANCY.**

6 (a) IN GENERAL.—Section 215(a)(1) of the Social
7 Security Act (42 U.S.C. 415(a)(1)(B)) is amended by re-
8 designating subparagraph (C) and (D) as subparagraphs
9 (D) and (E), respectively, and by inserting after subpara-
10 graph (B) the following new subparagraph:

11 “(C)(i) For individuals who initially become eligible
12 for old-age or disability insurance benefits (or who die be-
13 fore becoming eligible for such benefits) in any calendar
14 year after 2011, the primary insurance amount computed
15 under this paragraph shall be the product derived by mul-
16 tiplying such amount as computed under the preceding
17 subparagraphs of this paragraph by the life expectancy
18 ratio for such calendar year.

19 “(ii) The Commissioner of Social Security, using gen-
20 erally accepted actuarial principles, shall determine and
21 publish in the Federal Register on or before November 1
22 of each calendar year the life expectancy ratio for the fol-
23 lowing calendar year.

24 “(iii) For purposes of clause (ii), the life expectancy
25 ratio for any calendar year is the ratio of—

1 “(I) the period life expectancy of an individual
2 attaining age 62 on January 1, 2010, to

3 “(II) the period life expectancy of an individual
4 attaining age 62 on January 1 of the third calendar
5 year preceding the calendar year in which the deter-
6 mination under clause (ii) is made.”.

7 (b) STUDY OF THE EFFECT OF INCREASES IN LIFE
8 EXPECTANCY.—

9 (1) STUDY PLAN.—Not later than February 15,
10 2003, the Commissioner of Social Security shall sub-
11 mit to Congress a detailed study plan for evaluating
12 the effects of increases in life expectancy on the ex-
13 pected level of retirement income from social secu-
14 rity, pensions, and other sources. The study plan
15 shall include a description of the methodology, data,
16 and funding that will be required in order to provide
17 to the Congress not later than February 15, 2008—

18 (A) an evaluation of trends in mortality
19 and their relationship to trends in health sta-
20 tus, among individuals approaching eligibility
21 for old-age insurance benefits under title II of
22 the Social Security Act;

23 (B) an evaluation of trends in labor force
24 participation among individuals approaching eli-
25 gibility for such benefits and among individuals

1 receiving such benefits, and of the factors that
2 influence the choice between retirement and
3 participation in the labor force;

4 (C) an evaluation of changes, if any, in the
5 disability insurance program under title II of
6 the Social Security Act that would reduce the
7 impact of changes in the retirement income of
8 workers in poor health or physically demanding
9 occupations;

10 (D) an evaluation of the methodology used
11 to develop projections for trends in mortality,
12 health status, and labor force participation
13 among individuals approaching eligibility for
14 old-age insurance benefits and among individ-
15 uals receiving such benefits; and

16 (E) an evaluation of such other matters as
17 the Commissioner deems appropriate for evalu-
18 ating the effects of increases in life expectancy.

19 (2) REPORT ON RESULTS OF STUDY.—Not later
20 than February 15, 2008, the Commissioner of Social
21 Security shall provide to the Congress an evaluation
22 of the implications of the trends studied under para-
23 graph (1), along with recommendations, if any, of
24 the extent to which the conclusions of such evalua-
25 tions indicate that projected increases in life expect-

1 ancy require modification in the disability insurance
 2 program under title II of the Social Security Act
 3 and other income support programs.

4 **SEC. 11. TREATMENT OF DISABLED BENEFICIARIES.**

5 Section 215(a) of the Social Security Act (42 U.S.C.
 6 415(a)) is amended by adding at the end the following
 7 new paragraph:

8 “(8)(A) Notwithstanding the preceding provisions of
 9 this subsection, in the case of an individual who has or
 10 has had a period of disability and becomes entitled to old-
 11 age insurance benefits under section 202(a) (or dies) in
 12 or after 2006, the primary insurance amount of such indi-
 13 vidual shall be the sum of—

14 “(i) the amount determined under subpara-
 15 graph (B), and

16 “(ii) the product derived by multiplying—

17 “(I) the excess of the amount determined
 18 under subparagraph (C) over the amount deter-
 19 mined under subparagraph (B), by

20 “(II) the adjustment factor for such indi-
 21 vidual determined under subparagraph (D).

22 “(B) The amount determined under this subpara-
 23 graph is the amount of such individual’s primary insur-
 24 ance amount as determined under this section without re-
 25 gard to this paragraph.

7 “(D) The adjustment factor determined under this
8 subparagraph for any individual is the ratio (not greater
9 than 1) of—

10 “(i) the number of months, preceding the ear-
11 lier of such individual’s first month of entitlement to
12 old-age insurance benefits under section 202(a) or
13 the month of such individual’s death, which occurred
14 during a period of disability of such individual, to
15 “(ii) 480.”.

18 (a) IN GENERAL.—Section 230 of the Social Security
19 Act (42 U.S.C. 430) is amended to read as follows:

22 “SEC. 230. (a) The Commissioner of Social Security
23 shall determine and publish in the Federal Register on or
24 before November 1 of each calendar year the contribution
25 and benefit base determined under subsection (b) which
26 shall be effective with respect to remuneration paid after

1 such calendar year and taxable years beginning after such
2 year.

3 “(b) For purposes of this section, for purposes of de-
4 termining wages and self-employment income under sec-
5 tions 209, 211, 213, and 215 of this Act and sections 54,
6 1402, 3121, 3122, 3125, 6413, and 6654 of the Internal
7 Revenue Code of 1986, and for purposes of section
8 4022(b)(3)(B) of Public Law 93–406, the contribution
9 and benefit base is—

10 “(1) with respect to remuneration paid in (and
11 taxable years beginning in) 2002, \$90,800,

12 “(2) with respect to remuneration paid in (and
13 taxable years beginning in) 2003, \$101,200,

14 “(3) with respect to remuneration paid in (and
15 taxable years beginning in) 2004, \$111,600, and

16 “(4) with respect to remuneration paid in (and
17 taxable years beginning in) any calendar year after
18 2004, an amount equal to 86 percent of the quotient
19 derived by dividing—

20 “(A) the total wages paid in the calendar
21 year preceding the calendar year in which the
22 determination is made under subsection (a), by

23 “(B) the number of individuals credited
24 with wages paid during the calendar year pre-

1 ceding the calendar year in which the deter-
 2 mination is made under subsection (a),
 3 rounded (if not a multiple of \$100) to the nearest
 4 multiple of \$100.”.

5 (b) EFFECTIVE DATE.—The amendment made by
 6 this section shall apply to remuneration paid in (and tax-
 7 able years beginning in) any calendar year after 2001.

8 **SEC. 13. PHASED-IN INCREASE IN SOCIAL SECURITY RE-**
 9 **TIREMENT AGES.**

10 Section 216(l) of the Social Security Act (42 U.S.C.
 11 416(l) is amended—

12 (1) in paragraph (1), by striking subparagraphs
 13 (A), (B), (C), (D), and (E) and inserting the fol-
 14 lowing:

15 “(A) with respect to an individual who attains
 16 early retirement age (as defined in paragraph (2))
 17 before January 1, 2000, 65 years of age; and

18 “(B) with respect to an individual who attains
 19 early retirement age after December 31, 1999, and
 20 before January 1, 2012, 65 years of age plus $\frac{2}{12}$ of
 21 the number of months in the period beginning with
 22 January 2000 and ending with December of the
 23 year in which the individual attains early retirement
 24 age; and

1 “(C) with respect to an individual who attains
2 early retirement age after December 31, 2011, 67
3 years of age.”; and

4 (2) by striking paragraph (3).

5 **SEC. 14. MECHANISM FOR REMEDYING UNFORESEEN DETE-**
6 **RIORATION IN SOCIAL SECURITY SOLVENCY.**

7 (a) IN GENERAL.—Section 709 of the Social Security
8 Act (42 U.S.C. 910) is amended—

9 (1) by redesignating subsection (b) as sub-
10 section (c); and

11 (2) by striking “SEC. 709. (a) If the Board of
12 Trustees” and all that follows through “any such
13 Trust Fund” and inserting the following:

14 “SEC. 709. (a)(1)(A) If the Board of Trustees of the
15 Federal Old-Age and Survivors Insurance Trust Fund and
16 the Federal Disability Insurance Trust Fund determines
17 at any time, using intermediate actuarial assumptions,
18 that the balance ratio of either such Trust Fund for any
19 calendar year during the succeeding period of 75 calendar
20 years will be zero, the Board shall promptly submit to each
21 House of the Congress and to the President a report set-
22 ting forth its recommendations for statutory adjustments
23 affecting the receipts and disbursements of such Trust
24 Fund necessary to maintain the balance ratio of such
25 Trust Fund at not less than 20 percent, with due regard

1 to the economic conditions which created such inadequacy
2 in the balance ratio and the amount of time necessary to
3 alleviate such inadequacy in a prudent manner. The report
4 shall set forth specifically the extent to which benefits
5 would have to be reduced, taxes under section 1401, 3101,
6 or 3111 of the Internal Revenue Code of 1986 would have
7 to be increased, or a combination thereof, in order to ob-
8 tain the objectives referred to in the preceding sentence.

9 “(B) In addition to any reports under subparagraph
10 (A), the Board shall, not later than May 30, 2001, prepare
11 and submit to Congress and the President recommenda-
12 tions for statutory adjustments to the disability insurance
13 program under title II of this Act to modify the changes
14 in disability benefits under the 21st Century Retirement
15 Security Act without reducing the balance ratio of the
16 Federal Disability Insurance Trust Fund. The Board shall
17 develop such recommendations in consultation with the
18 National Council on Disability, taking into consideration
19 the adequacy of benefits under the program, the relation-
20 ship of such program with old age benefits under such
21 title, and changes in the process for determining initial
22 eligibility and reviewing continued eligibility for benefits
23 under such program.

24 “(2)(A) The President shall, no later than 30 days
25 after the submission of the report to the President, trans-

1 mit to the Board and to the Congress a report containing
2 the President's approval or disapproval of the Board's rec-
3 ommendations.

4 “(B) If the President approves all the recommenda-
5 tions of the Board, the President shall transmit a copy
6 of such recommendations to the Congress as the Presi-
7 dent's recommendations, together with a certification of
8 the President's adoption of such recommendations.

9 “(C) If the President disapproves the recommenda-
10 tions of the Board, in whole or in part, the President shall
11 transmit to the Board and the Congress the reasons for
12 that disapproval. The Board shall then transmit to the
13 Congress and the President, no later than 60 days after
14 the date of the submission of the original report to the
15 President, a revised list of recommendations.

16 “(D) If the President approves all of the revised rec-
17 ommendations of the Board transmitted to the President
18 under subparagraph (C), the President shall transmit a
19 copy of such revised recommendations to the Congress as
20 the President's recommendations, together with a certifi-
21 cation of the President's adoption of such recommenda-
22 tions.

23 “(E) If the President disapproves the revised rec-
24 ommendations of the Board, in whole or in part, the Presi-
25 dent shall transmit to the Board and the Congress the

1 reasons for that disapproval, together with such revisions
2 to such recommendations as the President determines are
3 necessary to bring such recommendations within the
4 President's approval. The President shall transmit a copy
5 of such recommendations, as so revised, to the Board and
6 the Congress as the President's recommendations, to-
7 gether with a certification of the President's adoption of
8 such recommendations.

9 “(3)(A) This paragraph is enacted by Congress—

10 “(i) as an exercise of the rulemaking power of
11 the Senate and the House of Representatives, re-
12 spectively, and as such it is deemed a part of the
13 rules of each House, respectively, but applicable only
14 with respect to the procedure to be followed in that
15 House in the case of a joint resolution described in
16 subparagraph (B), and it supersedes other rules only
17 to the extent that it is inconsistent with such rules;
18 and

19 “(ii) with full recognition of the constitutional
20 right of either House to change the rules (so far as
21 relating to the procedure of that House) at any time,
22 in the same manner, and to the same extent as in
23 the case of any other rule of that House.

24 “(B) For purposes of this paragraph, the term ‘joint
25 resolution’ means only a joint resolution which is intro-

1 duced within the 10-day period beginning on the date on
2 which the President transmits the President's rec-
3 ommendations, together with the President's certification,
4 to the Congress under subparagraph (B), (D), or (E) of
5 paragraph (2), and—

6 “(i) which does not have a preamble;

7 “(ii) the matter after the resolving clause of
8 which is as follows: ‘That the Congress approves the
9 recommendations of the President as transmitted on
10 _____ pursuant to section 709(a) of the Social Secu-
11 rity Act, as follows: _____’, the first blank space
12 being filled in with the appropriate date and the sec-
13 ond blank space being filled in with the statutory ad-
14 justments contained in the recommendations; and

15 “(iii) the title of which is as follows: ‘Joint reso-
16 lution approving the recommendations of the Presi-
17 dent regarding social security.’.

18 “(C) A joint resolution described in subparagraph
19 (B) that is introduced in the House of Representatives
20 shall be referred to the Committee on Ways and Means
21 of the House of Representatives. A joint resolution de-
22 scribed in subparagraph (B) introduced in the Senate
23 shall be referred to the Committee on Finance of the Sen-
24 ate.

1 “(D) If the committee to which a joint resolution de-
2 scribed in subparagraph (B) is referred has not reported
3 such joint resolution (or an identical joint resolution) by
4 the end of the 20-day period beginning on the date on
5 which the President transmits the recommendation to the
6 Congress under paragraph (2), such committee shall be,
7 at the end of such period, discharged from further consid-
8 eration of such joint resolution, and such joint resolution
9 shall be placed on the appropriate calendar of the House
10 involved.

11 “(E)(i) On or after the third day after the date on
12 which the committee to which such a joint resolution is
13 referred has reported, or has been discharged (under sub-
14 paragraph (D)) from further consideration of, such a joint
15 resolution, it is in order (even though a previous motion
16 to the same effect has been disagreed to) for any Member
17 of the respective House to move to proceed to the consider-
18 ation of the joint resolution. A Member may make the mo-
19 tion only on the day after the calendar day on which the
20 Member announces to the House concerned the Member’s
21 intention to make the motion, except that, in the case of
22 the House of Representatives, the motion may be made
23 without such prior announcement if the motion is made
24 by direction of the committee to which the joint resolution
25 was referred. All points of order against the joint resolu-

1 tion (and against consideration of the joint resolution) are
2 waived. The motion is highly privileged in the House of
3 Representatives and is privileged in the Senate and is not
4 debatable. The motion is not subject to amendment, or
5 to a motion to postpone, or to a motion to proceed to the
6 consideration of other business. A motion to reconsider the
7 vote by which the motion is agreed to or disagreed to shall
8 not be in order. If a motion to proceed to the consideration
9 of the joint resolution is agreed to, the respective House
10 shall immediately proceed to consideration of the joint res-
11 olution without intervening motion, order, or other busi-
12 ness, and the joint resolution shall remain the unfinished
13 business of the respective House until disposed of.

14 “(ii) Debate on the joint resolution, and on all debat-
15 able motions and appeals in connection therewith, shall be
16 limited to not more than 2 hours, which shall be divided
17 equally between those favoring and those opposing the
18 joint resolution. An amendment to the joint resolution is
19 not in order. A motion further to limit debate is in order
20 and not debatable. A motion to postpone, or a motion to
21 proceed to the consideration of other business, or a motion
22 to recommit the joint resolution is not in order. A motion
23 to reconsider the vote by which the joint resolution is
24 agreed to or disagreed to is not in order.

1 “(iii) Immediately following the conclusion of the de-
2 bate on a joint resolution described in subparagraph (B)
3 and a single quorum call at the conclusion of the debate
4 if requested in accordance with the rules of the appro-
5 priate House, the vote on final passage of the joint resolu-
6 tion shall occur.

7 “(iv) Appeals from the decisions of the Chair relating
8 to the application of the rules of the Senate or the House
9 of Representatives, as the case may be, to the procedure
10 relating to a joint resolution described in subparagraph
11 (B) shall be decided without debate.

12 “(F)(i) If, before the passage by one House of a joint
13 resolution of that House described in subparagraph (B),
14 that House receives from the other House a joint resolu-
15 tion described in subparagraph (B), then the following
16 procedures shall apply:

17 “(I) The joint resolution of the other House
18 shall not be referred to a committee and may not be
19 considered in the House receiving it except in the
20 case of final passage as provided in subclause (II).

21 “(II) With respect to a joint resolution de-
22 scribed in subparagraph (B) of the House receiving
23 the joint resolution, the procedure in that House
24 shall be the same as if no joint resolution had been
25 received from the other House, but the vote on final

1 passage shall be on the joint resolution of the other
2 House.

3 “(ii) Upon disposition of the joint resolution received
4 from the other House, it shall no longer be in order to
5 consider the joint resolution that originated in the receiv-
6 ing House.

7 “(b) If the Board of Trustees of the Federal Hospital
8 Insurance Trust Fund or the Federal Supplementary
9 Medical Insurance Trust Fund determines at any time
10 that the balance ratio of either such Trust Fund”.

11 (b) CONFORMING AMENDMENTS.—

12 (1) Section 709(b) of such Act (as amended by
13 subsection (a) of this section) is amended by striking
14 “any such” and inserting “either such”.

15 (2) Section 709(c) of such Act (as redesignated
16 by subsection (a) of this section) is amended by in-
17 serting “or (b)” after “subsection (a)”.

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