

107TH CONGRESS  
1ST SESSION

# H. R. 3315

To improve the solvency of the Social Security Program, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 16, 2001

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

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## A BILL

To improve the solvency of the Social Security 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 AND TABLE OF CONTENTS.**

4       (a) SHORT TITLE.—This Act may be cited as the  
5       “Social Security Stabilization and Enhancement Act of  
6       2001”.

7       (b) TABLE OF CONTENTS.—The table of contents is  
8       as follows:

See. 1. Short title and table of contents.

See. 2. Investment of the social security trust funds.

See. 3. Rules governing investment of Federal Old-Age and Survivors Insurance Trust Fund in common stock.

Sec. 4. Establishment of the Independent Social Security Investment Oversight Board.  
Sec. 5. Repeal of limitation on social security wage base for FICA and SECA taxes.  
Sec. 6. Basic exemption from employee social security taxes.  
Sec. 7. Increase in benefits at age 85.  
Sec. 8. Years of low earnings while providing child care disregarded in determining benefit computation years.  
Sec. 9. Phased-in increase in number of benefit computation years to 38.

1 **SEC. 2. INVESTMENT OF THE SOCIAL SECURITY TRUST**  
2 **FUNDS.**

3 (a) IN GENERAL.—Section 201(d) of the Social Security Act (42 U.S.C. 401(d)) is amended to read as follows:

5 “(d)(1) It shall be the duty of the Managing Trustee  
6 to invest such portion of each of the Trust Funds as is  
7 not, in his judgment, required to meet current withdrawals. Subject to paragraph (2), such investments may  
8 be made only in interest-bearing obligations of the United  
9 States or in obligations guaranteed as to both principal  
10 and interest by the United States. For such purpose such  
11 obligations may be acquired (A) on original issue at the  
12 issue price, or (B) by purchase of outstanding obligations  
13 at the market price.

15 “(2)(A) The Independent Social Security Investment  
16 Oversight Board shall establish in the Federal Old-Age  
17 and Survivors Insurance Trust Fund—

18 “(i) a Government Securities Investment Fund  
19 under which sums in the Trust Fund are invested in  
20 securities of the United States Government issued as  
21 provided in paragraph (3);

1           “(ii) a Fixed Income Investment Fund under  
2        which sums in the Trust Fund are invested in—

3           “(I) insurance contracts,  
4           “(II) certificates of deposit, or  
5           “(III) other instruments or obligations se-  
6        lected by qualified professional asset managers,  
7        which return the amount invested and pay interest,  
8        at a specified rate or rates, on that amount during  
9        a specified period of time;

10          “(iii) a Common Stock Index Investment Fund  
11        as provided in section 234(a); and

12          “(iv) such other investment fund or funds as  
13        the Board may provide by regulation.

14          “(B) Upon receipt by the Federal Old-Age and Sur-  
15  vivors Insurance Trust Fund of any amount appropriated  
16  under subsection (a), the Managing Trustee shall deposit  
17  a portion of such amount into the investment funds de-  
18  scribed in subparagraph (A)—

19          “(i) in accordance with the policies and require-  
20  ments set forth in section 713, and

21          “(ii) in a manner sufficient to maintain compli-  
22  ance with the requirement under subparagraph (C).

23          “(C) The portion of the total amount within the Fed-  
24  eral Old-Age and Survivors Insurance Trust Fund which  
25  is maintained in the investment funds described in sub-

1 paragraph (A) shall, in the aggregate, remain as close as  
 2 practicable at the end of each target year (specified in the  
 3 following table) to the applicable percentage (specified in  
 4 such table) for that target year of the total amount held  
 5 in such Trust Fund at the end of such target year.

<b>“For each target year consisting of:</b>	<b>The applicable percentage is:</b>
2004 .....	8 percent.
2007 .....	16 percent.
2010 .....	24 percent.
2013 .....	32 percent.
2016 and each year thereafter .....	40 percent.

6       “(3)(A) The purposes for which obligations of the  
 7 United States may be issued under chapter 31 of title 31,  
 8 United States Code, are hereby extended to authorize the  
 9 issuance at par of public-debt obligations for purchase—  
 10           “(i) by the Trust Funds under paragraph (1);  
 11           and

12           “(ii) by the Federal Old-Age and Survivors In-  
 13           surance Trust Fund for purposes of paragraph  
 14           (2)(A)(i).

15       “(B) Such obligations issued for purchase by the  
 16 Trust Funds shall have maturities fixed with due regard  
 17 for the needs of the Trust Funds and shall bear interest  
 18 at a rate equal to the average market yield (computed by  
 19 the Managing Trustee on the basis of market quotations  
 20 as of the end of the calendar month next preceding the  
 21 date of such issue) on all marketable interest-bearing obli-  
 22 gations of the United States then forming a part of the

1 public debt which are not due or callable until after the  
2 expiration of four years from the end of such calendar  
3 month; except that where such average market yield is not  
4 a multiple of one-eighth of 1 per centum, the rate of inter-  
5 est of such obligations shall be the multiple of one-eighth  
6 of 1 per centum nearest such market yield.

7       “(C) Each obligation issued for purchase by the  
8 Trust Funds under subparagraph (A) shall be evidenced  
9 by a paper instrument in the form of a bond, note, or  
10 certificate of indebtedness issued by the Secretary of the  
11 Treasury setting forth the principal amount, date of matu-  
12 rity, and interest rate of the obligation, and stating on  
13 its face that the obligation shall be incontestable in the  
14 hands of the Trust Funds, that the obligation is supported  
15 by the full faith and credit of the United States, and that  
16 the United States is pledged to the payment of the obliga-  
17 tion with respect to both principal and interest.

18       “(D) The Managing Trustee may purchase interest-  
19 bearing obligations of the United States or obligations  
20 guaranteed as to both principal and interest by the United  
21 States, other than obligations issued for purchase by the  
22 Trust Funds, on original issue or at the market price, for  
23 purposes of investment of the amounts held in the Trust  
24 Funds only where he determines that the purchase of such  
25 other obligations is in the public interest.”.

1 (c) EFFECTIVE DATE.—The amendment made by  
2 subsection (a) shall apply with respect to fiscal years be-  
3 ginning on or after October 1, 2001.

#### 4 SEC. 3. RULES GOVERNING INVESTMENT OF FEDERAL OLD-

7 (a) IN GENERAL.—Title II of the Social Security Act  
8 is amended by adding at the end the following new section:

## 9 "INVESTMENT OF FEDERAL OLD-AGE AND SURVIVORS

## 10 INSURANCE TRUST FUND IN COMMON STOCK

11        "SEC. 234. (a) COMMON STOCK INDEX INVESTMENT  
12 FUND.—

13           “(1) SELECTION OF INDEX.—The Independent  
14           Social Security Investment Oversight Board shall se-  
15           lect, for purposes of investment of amounts held in  
16           the Common Stock Investment Fund of the Federal  
17           Old-Age and Survivors Insurance Trust Fund, an  
18           index which is a commonly recognized index com-  
19           prised of common stock the aggregate market value  
20           of which is a reasonably complete representation of  
21           the United States equity markets.

22       “(2) PORTFOLIO DESIGN.—Amounts held in the  
23       Common Stock Investment Fund of the Federal Old-  
24       Age and Survivors Insurance Trust Fund shall be  
25       invested in a portfolio designed to replicate the per-  
26       formance of the index selected under paragraph (1).

1       The portfolio shall be designed such that, to the ex-  
2       tent practicable, the percentage of the balance in  
3       such Account that is invested in each stock is the  
4       same as the percentage determined by dividing the  
5       aggregate market value of all shares of that stock by  
6       the aggregate market value of all shares of all stocks  
7       included in such index.

8       “(b) NO VOTING RIGHTS IN SECURITIES.—The Inde-  
9       pendent Social Security Investment Oversight Board and  
10       the Managing Trustee of the Federal Old-Age and Sur-  
11       vivors Insurance Trust Fund may not exercise voting  
12       rights associated with the ownership of securities by the  
13       Trust Fund.

14       “(c) ENGAGEMENT OF QUALIFIED PUBLIC AC-  
15       COUNTANT.—

16       “(1) IN GENERAL.—The Independent Social Se-  
17       curity Investment Oversight Board shall annually  
18       engage, on behalf of the Federal Old-Age and Sur-  
19       vivors Insurance Trust Fund, an independent qual-  
20       fied public accountant, who shall conduct an exam-  
21       ination of all accounts and other books and records  
22       maintained in the administration of this section as  
23       the public accountant considers necessary to enable  
24       the public accountant to make the determination re-  
25       quired by paragraph (2). The examination shall be

1 conducted in accordance with generally accepted au-  
2 diting standards and shall involve such tests of the  
3 accounts, books, and records as the public account-  
4 ant considers necessary.

5       “(2) EXAMINATION AND REPORT.—The public  
6 accountant conducting an examination under para-  
7 graph (1) shall determine whether the accounts,  
8 books, and records referred to in paragraph (1) have  
9 been maintained in conformity with generally accept-  
10 ed accounting principles applied on a basis con-  
11 sistent with the manner in which such principles  
12 were applied during the examination conducted  
13 under paragraph (1) during each preceding year  
14 after 2002. The public accountant shall transmit to  
15 the Board, the Comptroller General of the United  
16 States, and each House of the Congress a report on  
17 his examination, including his determination under  
18 this paragraph. The Board shall make publicly avail-  
19 able, by posting on the Internet and such other  
20 means as the Board may determine, each report re-  
21 ceived under the preceding sentence.

22       “(3) DEFINITION.—For the purposes of this  
23 subsection, the term ‘qualified public accountant’  
24 shall have the same meaning as is provided in sec-  
25 tion 103(a)(3)(D) of the Employee Retirement In-

1 come Security Act of 1974 (29 U.S.C.  
2 1023(a)(3)(D)).

3 “(d) FIDUCIARY RESPONSIBILITIES.—

4 “(1) IN GENERAL.—Under regulations of the  
5 Secretary of Labor, the provisions of sections 8477  
6 and 8478 of title 5, United States Code, shall apply  
7 in connection with the amounts maintained in the  
8 Common Stock Investment Fund of the Federal Old-  
9 Age and Survivors Insurance Trust Fund in the  
10 same manner and to the same extent as such provi-  
11 sions apply in connection with the Thrift Savings  
12 Fund.

13 “(2) INVESTIGATIVE AUTHORITY.—Any author-  
14 ity available to the Secretary of Labor under section  
15 504 of the Employee Retirement Income Security  
16 Act of 1974 (29 U.S.C. 1134) is hereby made avail-  
17 able to the Secretary of Labor, and any officer des-  
18 ignated by the Secretary of Labor, to determine  
19 whether any person has violated, or is about to vio-  
20 late, any provision applicable under paragraph (1).

21 “(3) EXONERATORY PROVISIONS; INSURANCE.—

22 “(A) IN GENERAL.—Any provision in an  
23 agreement or instrument which purports to re-  
24 lieve a fiduciary from responsibility or liability

1 for any responsibility, obligation, or duty under  
2 this section shall be void.

3 “(B) INSURANCE.—Amounts held in the  
4 Federal Old-Age and Survivors Insurance Trust  
5 Fund available for administrative expenses shall  
6 be available and may be used at the discretion  
7 of the Independent Social Security Investment  
8 Oversight Board to purchase insurance to cover  
9 potential liability of persons who serve in a fi-  
10 duciary capacity with respect to amounts main-  
11 tained in the Common Stock Investment Fund  
12 of such Trust Fund, without regard to whether  
13 a policy of insurance permits recourse by the  
14 insurer against the fiduciary in the case of a  
15 breach of a fiduciary obligation.”.

16 (b) CLERICAL AMENDMENT.—The analysis for title  
17 II of the Social Security Act is amended by adding at the  
18 end the following new item:

“Sec. 234. Investment of Federal Old-Age and Survivors Insurance Trust Fund  
in common stock.”.

19 **SEC. 4. ESTABLISHMENT OF THE INDEPENDENT SOCIAL SE-  
20 CURITY INVESTMENT OVERSIGHT BOARD.**

21 (a) IN GENERAL.—Title VII of the Social Security  
22 Act is amended by adding after section 712 (42 U.S.C.  
23 913) the following new section:

## 1 “INDEPENDENT SOCIAL SECURITY INVESTMENT

2 OVERSIGHT BOARD

3       “SEC. 713. (a) There is established in the Social Se-  
4       curity Administration an Independent Social Security In-  
5       vestment Oversight Board.

6       “(b) The Board shall be composed of a Chairman and  
7 four additional members. The Chairman and each addi-  
8 tional member shall be appointed by the President, by and  
9 with the advice and consent of the Senate.

10       “(c) Members of the Board shall have substantial ex-  
11 perience, training, and expertise in the management of fi-  
12 nancial investments and service in a fiduciary capacity.

13       “(d)(1) A member of the Board shall be appointed  
14 for a term of 10 years, except that of the members first  
15 appointed—

16           “(A) the member appointed as Chairman shall  
17        be appointed for a term of 10 years;

18               “(B) one member shall be appointed for a term  
19               of 8 years;

20               “(C) one member shall be appointed for a term  
21               of 6 years;

22               “(D) one member shall be appointed for a term  
23               of 4 years; and

24               “(E) one member shall be appointed for a term  
25               of 2 years,

1 as designated by the President at the time of appointment.

2       “(2)(A) A vacancy on the Board shall be filled in the  
3 manner in which the original appointment was made and  
4 shall be subject to any conditions which applied with re-  
5 spect to the original appointment.

6       “(B) An individual chosen to fill a vacancy shall be  
7 appointed for the unexpired term of the member replaced.

8       “(C) The term of any member shall not expire before  
9 the date on which the member’s successor takes office.

10       “(3) An individual appointed as a member of the  
11 Board may be removed from office only pursuant to a  
12 finding by the President of neglect of duty or malfeasance  
13 in office.

14       “(e) The member of the Board designated by the  
15 President as Chairman shall serve as Chairman for a term  
16 of 4 years (or until the expiration of his term as member  
17 of the Board, if earlier). A member serving as Chairman  
18 may be reappointed as Chairman.

19       “(f) The Board shall—

20       “(1) establish policies for the investment and  
21 management of the funds described in section  
22 201(d)(2), including policies to provide for—

23           “(A) prudent investments suitable for ac-  
24 cumulating funds for payment of retirement in-  
25 come, and

- 1                         “(B) low administrative costs;
- 2                         “(2) review bids from, and managers for, the
- 3                         funds described in section 201(d)(2);
- 4                         “(3) annually review the performance of each
- 5                         fund described in section 201(d)(2) and provide for
- 6                         reallocation of investments among them by the Man-
- 7                         aging Trustee of the Federal Old-Age and Survivors
- 8                         Insurance Trust Fund as appropriate;
- 9                         “(4)(A) report annually to each House of the
- 10                         Congress and to the President regarding the earn-
- 11                         ings on such investments; and
- 12                         “(B) make each such report publicly available
- 13                         by publication in the Federal Register, posting on
- 14                         the Internet, and such other means as the Board
- 15                         may determine; and
- 16                         “(5) review and approve the budget of the
- 17                         Board.
- 18                         “(g)(1) The Board may—
- 19                         “(A) adopt, alter, and use a seal;
- 20                         “(B) establish policies with which the Managing
- 21                         Trustee of the Federal Old-Age and Survivors Insur-
- 22                         ance Trust Fund is required to comply under section
- 23                         201(d)(2); and
- 24                         “(C) take such other actions as may be nec-
- 25                         essary to carry out the functions of the Board.

1       “(2) The policies of the Board may not require the  
2 Managing Trustee of the Federal Old-Age and Survivors  
3 Insurance Trust Fund to invest or to cause to be invested  
4 any sums in such Trust Fund in a specific asset or to  
5 dispose of or cause to be disposed of any specific asset  
6 of such Trust Fund.

7       “(h)(1) The Board shall meet—  
8           “(A) not less than once during each month; and  
9           “(B) at additional times at the call of the  
10           Chairman.

11       “(2)(A) The Board shall perform the functions and  
12 exercise the powers of the Board on a majority vote of  
13 a quorum of the Board.

14       “(B) A vacancy on the Board shall not impair the  
15 authority of a quorum of the Board to perform the func-  
16 tions and exercise the powers of the Board.

17       “(3) Three members of the Board shall constitute a  
18 quorum for the transaction of business.

19       “(4)(A) Each member of the Board who is not an  
20 officer or employee of the Federal Government shall be  
21 compensated at the daily rate of basic pay payable for level  
22 IV of the Executive Schedule for each day during which  
23 such member is engaged in performing a function of the  
24 Board.

1       “(B) A member of the Board shall be paid travel,  
2 per diem, and other necessary expenses under subchapter  
3 I of chapter 57 of title 5, United States Code, while trav-  
4 eling away from such member’s home or regular place of  
5 business in the performance of the duties of the Board.

6       “(5) The accrued annual leave of any officer or em-  
7 ployee of the Federal Government who is a member of the  
8 Board shall not be charged for any time used in per-  
9 forming services for the Board.

10       “(i) The members of the Board shall discharge their  
11 responsibilities solely in the interest of the Federal Old-  
12 Age and Survivors Insurance Trust Fund in connection  
13 with investments of amounts in funds under section  
14 201(d)(2).

15       “(j) The Board shall prepare and submit to the Presi-  
16 dent, and, at the same time, to the appropriate committees  
17 of Congress, an annual budget of the expenses and other  
18 items relating to the Board which shall be included as a  
19 separate item in the budget required to be transmitted to  
20 the Congress under section 1105 of title 31, United States  
21 Code.

22       “(k) The Board may submit to the President, and,  
23 at the same time, shall submit to each House of Congress,  
24 any legislative recommendations of the Board relating to  
25 any of its functions under this section.

1       “(l) There are hereby made available from Federal  
2 Old-Age and Survivors Insurance Trust Fund such sums  
3 as are necessary to carry out the provisions of this section  
4 and to administer the provisions of section 234, in accord-  
5 ance with certifications which shall be made from time to  
6 time by the Board to the Secretary of the Treasury.”.

7 (b) CLERICAL AMENDMENT.—The analysis for title  
8 VII of the Social Security Act is amended by adding at  
9 the end the following new item:

“Sec. 713. Independent Social Security Investment Oversight Board.”.

10 SEC. 5. REPEAL OF LIMITATION ON SOCIAL SECURITY  
11 WAGE BASE FOR FICA AND SECA TAXES.

12 (a) FICA TAX.—Paragraph (1) of section 3121(a)  
13 of the Internal Revenue Code of 1986 (defining wages)  
14 is hereby repealed.

15 (b) SECA TAX.—Subsection (b) of section 1402 of  
16 such Code (relating to definitions) is amended to read as  
17 follows:

18        "(b) SELF-EMPLOYMENT INCOME.—

19                   “(1) IN GENERAL.—The term ‘self-employment  
20                   income’ means the net earnings from self-employment  
21                   derived by an individual (other than a non-  
22                   resident alien individual, except as provided by an  
23                   agreement under section 233 of the Social Security  
24                   Act) during any taxable year.

1           “(2) EXCEPTION FOR MINIMUM NET EARN-  
2       INGS.—

3           “(A) IN GENERAL.—The term ‘self-employ-  
4       ment income’ shall not include the net earnings  
5       from self-employment, if such net earnings for  
6       the taxable year are less than \$400.

7           “(B) APPLICATION OF SPECIAL RULES.—  
8       In the case of church employee income, the spe-  
9       cial rules of subsection (j)(2) shall apply for  
10      purposes of subparagraph (A).

11          “(3) DETERMINATION OF NONRESIDENT ALIEN  
12       STATUS.—An individual who is not a citizen of the  
13       United States but who is a resident of the Common-  
14       wealth of Puerto Rico, the Virgin Islands, Guam, or  
15       American Samoa shall not, for purposes of this  
16       chapter, be considered to be a nonresident alien indi-  
17       vidual.”.

18          (c) CONFORMING AMENDMENTS.—

19           (1) Subsection (b) of section 31 of the Internal  
20       Revenue Code of 1986 is hereby repealed.

21           (2) Subparagraph (A) of section 51(h)(1) of  
22       such Code is amended by striking “so much” and all  
23       the follows through the period and inserting “the  
24       lesser of—

1                     “(i) so much of such remuneration as  
2                     constitutes ‘wages’ within the meaning of  
3                     section 3121(a), or  
4                     “(ii) \$6,000.”.

5                     (3) Subsection (s) of section 3121 of such Code  
6                     is amended by striking “sections 3102, 3111, and  
7                     3121(a)(1)” and inserting “sections 3102 and  
8                     3111”.

9                     (4) Section 3122 of such Code is amended by  
10                    striking the fourth sentence.

11                    (5) Subsections (a), (b), (c), and (d) of section  
12                    3125 of such Code are each amended by striking the  
13                    last sentence.

14                    (6) Subsection (c) of section 6413 of such Code  
15                    is hereby repealed.

16                    (7) Subsection (c) of section 230 of the Social  
17                    Security Act is amended by striking “and sections  
18                    1402, 3121, 3122, 3125, 6413, and 6654 of the In-  
19                    ternal Revenue Code of 1986”.

20                    (d) EFFECTIVE DATE.—The amendments made by  
21                    this section shall take effect on January 1, 2002.

1 **SEC. 6. BASIC EXEMPTION FROM EMPLOYEE SOCIAL SECU-**2 **RITY TAXES.**

3 (a) WAGES.—Subsection (a) of section 3121 of the  
4 Internal Revenue Code of 1986 is amended by inserting  
5 before paragraph (2) the following new paragraph:

6 “(1) in the case of tax imposed by section  
7 3101(a), so much of the wages (determined without  
8 regard to this paragraph) paid to an individual dur-  
9 ing the calendar year as does not exceed the basic  
10 exemption (as defined in subsection (k)) unless such  
11 individual designates a lower amount with respect to  
12 the employer;”.

13 (b) BASIC EXEMPTION.—Section 3121 of such Code  
14 is amended further by inserting after subsection (j) the  
15 following new subsection:

16 “(k) BASIC EXEMPTION.—

17 “(1) IN GENERAL.—For purposes of subsection  
18 (a)(1) and this subsection, the term ‘basic exemp-  
19 tion’ for a taxable year means \$4,000 for the taxable  
20 year ending with or during calendar year 2002 and  
21 the amount determined under paragraph (2) for tax-  
22 able years ending with or during calendar years  
23 after 2002.

24 “(2) ANNUAL ADJUSTMENT.—The Secretary  
25 shall, on or before November 1 of 2002 and of every  
26 year thereafter, determine and publish in the Fed-

1       eral Register the basic exemption for taxable years  
2       ending with or during the succeeding calendar year.  
3       The amount of the basic exemption determined  
4       under this paragraph shall be the larger of—

5               “(A) the amount of the basic exemption in  
6       effect for taxable years ending with or during  
7       the calendar year in which the determination  
8       under this subsection is made, or

9               “(B) the product of the amount prescribed  
10      in paragraph (1) in effect for the taxable year  
11      ending with or during calendar year 2002 and  
12      the ratio of the national average wage index (as  
13      defined in section 209(k)(1) of the Social Secu-  
14      rity Act) for taxable years ending with or dur-  
15      ing the calendar year before the calendar year  
16      in which the determination under this para-  
17      graph is made to the national average wage  
18      index (as so defined) for 2000,

19       with such product, if not a multiple of \$10, being  
20      rounded to the next higher multiple of \$10 where  
21      such amount is a multiple of \$5 but not of \$10 and  
22      to the nearest multiple of \$10 in any other case.”.

23       (c) SELF-EMPLOYMENT INCOME.—Section 1401 of  
24      such Code is amended by redesignating subsection (c) as

1 subsection (d) and by inserting after subsection (b) the  
2 following new subsection:

3       **“(c) COORDINATION WITH BASIC EXEMPTION FROM  
4 EMPLOYEE FICA TAX.—**

5           “(1) IN GENERAL.—Notwithstanding subsection  
6 (a), the rate of tax imposed by subsection (a) shall  
7 be  $\frac{1}{2}$  the otherwise applicable rate but only with re-  
8 spect to so much of the self-employment income for  
9 the calendar year beginning with or during the tax-  
10 able year as does not exceed an amount equal to—

11           “(A) the basic exemption (as defined in  
12 section 3121(k)) for the calendar year begin-  
13 ning with or during such taxable year, reduced  
14 (but not below zero) by

15           “(B) the amount of remuneration received  
16 during such year which would (but for section  
17 3121(a)(1)) be treated as wages (as defined in  
18 section 3121(a)).

19       **“(2) RECONCILIATION OF BASIC EXEMPTION  
20 WITH AMOUNT EXEMPTED DURING YEAR.—**

21           “(A) APPLICABLE TAX RATE.—The tax  
22 imposed by this section on the amount deter-  
23 mined under subparagraph (B) shall be at a  
24 rate equal to  $\frac{1}{2}$  of the otherwise applicable rate  
25 of tax under subsection (a).

1                   “(B) DETERMINATION OF EXCESS AMOUNT  
2                   EXEMPTED FROM EMPLOYMENT TAXES.—The  
3                   amount determined under this subparagraph is  
4                   the excess (if any) of the amount referred to in  
5                   paragraph (1)(B) over the basic exemption (as  
6                   defined in section 3121(k)) for the calendar  
7                   year beginning with or during such taxable  
8                   year.”.

9                   (d) EFFECTIVE DATE.—The amendments made by  
10                   this section shall apply to taxable years beginning after  
11                   December 31, 2001.”.

12 **SEC. 7. INCREASE IN BENEFITS AT AGE 85.**

13                   Section 202 of the Social Security Act (42 U.S.C.  
14 402) is amended by adding at the end the following new  
15 subsection:

16                   “(z)(1) Notwithstanding the preceding provisions of  
17 this section, the amount of an individual’s monthly insur-  
18 ance benefit under this section for any month ending after  
19 December 2002 and after such individual has attained age  
20 85 shall be the sum of—

21                   “(A) the amount of such benefit (determined  
22 before the application of this subsection), plus

23                   “(B) the applicable increase for monthly bene-  
24 fits for months in the calendar year in which such  
25 month occurs.

“(2)(A) For purposes of paragraph (1), the applicable increase for monthly benefits for months in any calendar year in connection with the monthly insurance benefit of any individual under this section is the product derived by multiplying—

8                   “(ii) the applicable percentage for such indi-  
9                   vidual for such year.

10        "(B) For purposes of subparagraph (A), the applica-  
11        ble percentage for an individual for a calendar year is the  
12        product derived by multiplying—

13                   “(i) 0.25 percent, by

14               “(ii) 1 plus the number of calendar years end-  
15       ing before such year and after such individual at-  
16       tained age 85,

17 except that such percentage shall not exceed 5.00 per-  
18 cent.”

19 SEC. 8. YEARS OF LOW EARNINGS WHILE PROVIDING  
20 CHILD CARE DISREGARDED IN DETERMINING  
21 BENEFIT COMPUTATION YEARS.

22 (a) IN GENERAL.—Section 215(b)(2) of the Social  
23 Security Act (42 U.S.C. 415(b)(2)) is amended—  
24 (1) by striking the period at the end of clause  
25 (ii) of subparagraph (A) and inserting a comma;

1 (2) by striking “Clause (ii), once” after and  
2 below clause (ii) of subparagraph (A) and inserting  
3 the following:

4 “and reduced further to the extent provided in sub-  
5 paragraph (B). Clause (ii), once”;

6 (3) by striking “If an individual” in the matter  
7 following clause (ii) of subparagraph (A) and all that  
8 follows through the end of the next to last sentence  
9 of subparagraph (A);

10 (4) by redesignating subparagraph (B) as sub-  
11 paragraph (F); and

12 (5) by inserting after subparagraph (A) the fol-  
13 lowing new subparagraphs:

14        "(B) Subject to subparagraph (D), in any case in  
15 which—

16               “(i) in any calendar year which is included in  
17               an individual’s computation base years, such indi-  
18               vidual is living with a child (of such individual or his  
19               or her spouse) under the age of 12,

20                   “(ii) such calendar year is not disregarded pur-  
21                   suant to subparagraphs (A) and (F) (in determining  
22                   such individual’s benefit computation years) by rea-  
23                   son of any reduction in the number of such individ-  
24                   ual’s elapsed years under subparagraph (A),

1           “(iii) the total of such individual’s earnings as  
2       described in section 203(f)(5) in such calendar year  
3       does not exceed the allowable maximum amount for  
4       such year determined under subparagraph (E), and

5           “(iv) at any time during or after such calendar  
6       year and on or before the date of the application by  
7       such individual for benefits based on such individ-  
8       ual’s wages and self-employment income, such indi-  
9       vidual submits to the Commissioner of Social Secu-  
10      rity, in such form as the Commissioner shall pre-  
11      scribe by regulations, a written statement that the  
12      requirements of clause (i) are met with respect to  
13      such calendar year,

14   then the number by which such elapsed years are reduced  
15   under this paragraph pursuant to subparagraph (A) shall  
16   be increased by one (up to the maximum number applica-  
17   ble under subparagraph (C)) for each such calendar year.

18           “(C) For purposes of subparagraph (B), the max-  
19       imum number by which elapsed years may be reduced pur-  
20       suant to such subparagraph is the number of years speci-  
21       fied in connection with the calendar year in which such  
22       individual first meets all requirements for entitlement to  
23       old-age insurance benefits or disability insurance benefits  
24       (other than filing application therefor), or dies (before

1 first meeting such requirements), as set forth in the fol-  
 2 lowing table:

<b>"If such calendar year is:</b>	<b>The applicable maximum num- ber of years is:</b>
After 2006 and before 2009 .....	1.
After 2008 and before 2011 .....	2.
After 2010 .....	3.

3       “(D)(i) No calendar year shall be disregarded by rea-  
 4 son of subparagraph (B) (in determining such individual’s  
 5 benefit computation years) in connection with a child un-  
 6 less the individual was living with the child substantially  
 7 throughout the period in such year in which the child was  
 8 alive and under the age of 12 in such year and the indi-  
 9 vidual had no earnings as described in section 203(f)(5)  
 10 in such year in excess of the maximum amount for such  
 11 year determined under subparagraph (E).

12       “(ii) The particular calendar years to be disregarded  
 13 under subparagraph (B) (in determining such benefit  
 14 computation years) shall be those years (not otherwise dis-  
 15 regarded under subparagraph (A)) which, before the appli-  
 16 cation of subsection (f), meet the conditions of clause (i).

17       “(iii) Subparagraph (B) shall apply only to the extent  
 18 that its application would not result in a lower primary  
 19 insurance amount.

20       “(E)(i) The maximum amount allowable under sub-  
 21 paragraph (B)(iii) for calendar year 2007 is \$3,000.

22       “(ii) The Commissioner of Social Security shall, on  
 23 or before November 1 of 2006, determine and publish in

1 the Federal Register the maximum amount allowable  
2 under subparagraph (B)(iii) for each calendar year after  
3 1967 and before 2007. The maximum amount allowable  
4 for each such calendar year shall be the amount which  
5 bears the same ratio to \$3,000 as the national average  
6 wage index (as defined in section 209(k)(1)) for the first  
7 of the 2 calendar years preceding such calendar year to  
8 the national average wage index (as so defined) for 2005.

9       “(iii) The Commissioner of Social Security shall, on  
10 or before November 1 of 2007 and of every year there-  
11 after, determine and publish in the Federal Register the  
12 maximum amount allowable under subparagraph (B)(iii)  
13 for the succeeding calendar year. The maximum amount  
14 allowable for each such calendar year shall be the amount  
15 which bears the same ratio to \$3,000 as the national aver-  
16 age wage index (as defined in section 209(k)(1)) for the  
17 calendar year before the year in which the determination  
18 under this clause is made to the national average wage  
19 index (as so defined) for 2005.

20       “(iv) Each amount determined under clause (ii) or  
21 (iii), if not a multiple of \$10, shall be rounded to the next  
22 higher multiple of \$10 where such amount is a multiple  
23 of \$5 but not of \$10 and to the nearest multiple of \$10  
24 in any other case.”.

1       (b) CONFORMING AMENDMENT.—Section 209(k)(1)  
2 of such Act (42 U.S.C. 409(k)(1)) is amended by inserting  
3 “215(b)(2)(E),” after “215(a)(1)(D),”.

4       (c) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply only with respect to individuals  
6 first meeting all requirements for entitlement to old-age  
7 insurance benefits or disability insurance benefits (other  
8 than filing application therefor), or dying (before first  
9 meeting such requirements), after December 31, 2006.

10 **SEC. 9. PHASED-IN INCREASE IN NUMBER OF BENEFIT  
11 COMPUTATION YEARS TO 38.**

12       (a) IN GENERAL.—Section 215(b)(2) of the Social  
13 Security Act (42 U.S.C. 415(b)(2)) (as amended by sec-  
14 tion 8) is amended further—

15           (1) in subparagraph (A)(i), by striking “by 5  
16 years” and inserting “to the extent provided in sub-  
17 paragraph (F)”;  
18           (2) by adding at the end of paragraph (2) the  
19 following new subparagraph:

20           “(F) For purposes of clause (i) of subparagraph (A),  
21 the number of elapsed years shall be reduced pursuant to  
22 such clause by the number of years specified in connection  
23 with the calendar year in which such individual becomes  
24 eligible for old-age insurance benefits, or dies (before be-

1 coming eligible for such benefits), as set forth in the fol-  
2 lowing table:

<b>“If such calendar year is:</b>	<b>The applicable number of years is:</b>
After 2006 and before 2009 .....	4.
After 2008 and before 2011 .....	3.
After 2010 .....	2.”.

3 (b) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply with respect to individuals attain-  
5 ing early retirement age (as defined in section 216(l)(2)  
6 of the Social Security Act), or dying (before attaining such  
7 age), after December 31, 2006.

