

108TH CONGRESS  
1ST SESSION

# H. R. 3177

To amend the Social Security Act and the Internal Revenue Code of 1986 to preserve and strengthen the Social Security Program through the creation of individual Social Security accounts ensuring full benefits for all workers and their families, giving Americans ownership of their retirement, restoring long-term Social Security solvency, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 25, 2003

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

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## A BILL

To amend the Social Security Act and the Internal Revenue Code of 1986 to preserve and strengthen the Social Security Program through the creation of individual Social Security accounts ensuring full benefits for all workers and their families, giving Americans ownership of their retirement, restoring long-term Social Security solvency, 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,*

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

2 (a) **SHORT TITLE.**—This Act may be cited as the  
3 “Social Security Savings Act of 2003”.

4 (b) **TABLE OF CONTENTS.**—The table of contents is  
5 as follows:

- Sec. 1. Short title and table of contents.
- Sec. 2. Findings and purposes.
- Sec. 3. Individual social security account program and individual social security accounts.

“PART B—INDIVIDUAL SOCIAL SECURITY ACCOUNT PROGRAM

- “Sec. 251. Definitions.
- “Sec. 252. Personal Savings Board.
- “Sec. 253. Executive Director.
- “Sec. 254. Social Security Personal Savings Fund.
- “Sec. 255. Eligible individuals.
- “Sec. 256. Individual social security accounts.
- “Sec. 257. Prescribed social security deposits.
- “Sec. 258. Investments in stock and Government obligations.
- “Sec. 259. Accounting and information.
- “Sec. 260. Account distributions.
- “Sec. 261. Payments upon death of account owner.
- “Sec. 262. Treatment of account balances and annuities.
- “Sec. 263. Fiduciary responsibilities.
- Sec. 4. Conforming adjustments to monthly insurance benefits.
- Sec. 5. Maintenance of adequate balances in the Social Security Trust Funds.
- Sec. 6. Taxation of Individual Social Security Account Program.
- Sec. 7. Report on private sector investment and management.
- Sec. 8. Maintenance of current levels of FICA and SECA taxes.

6 **SEC. 2. FINDINGS AND PURPOSES.**

7 (a) **FINDINGS.**—The Congress finds the following:

8 (1) Social Security is a defining American  
9 promise that must be kept. As one of the most suc-  
10 cessful Government programs of the 20th Century,  
11 it must always honor its founding purpose of pro-  
12 tecting the elderly from poverty and bringing dignity  
13 to retirement.

1           (2) Social Security’s retirement, survivors, and  
2           disability benefits help provide more than  
3           46,000,000 Americans of all ages income security,  
4           without which nearly 50 percent of seniors would  
5           live in poverty.

6           (3) Social Security is of particular importance  
7           for low-income earners, for whom it may be their  
8           sole source of retirement income. In addition, it is  
9           especially important for widows and mothers caring  
10          for children, without which nearly 53 percent of  
11          these women would live in poverty.

12          (4) Social Security is unsustainable in its  
13          present form. The 2003 Report of the Social Secu-  
14          rity Board of Trustees projects that the system’s ob-  
15          ligations will exceed its annual tax revenue starting  
16          in 2018. From 2018 to 2042, the Government is ob-  
17          ligated to pay full benefits using general tax reve-  
18          nues owed to the Social Security trust funds. How-  
19          ever, this means that the long-term financing prob-  
20          lem will begin in 2018.

21          (5) The Social Security trust funds will not  
22          solve the problem. These trust fund balances are  
23          available to finance future benefit payments only in  
24          a bookkeeping sense. They do not consist of real eco-  
25          nomic assets that can be drawn down in the future

1 to fund benefits. Instead, they are claims on the  
2 general budget that, when redeemed, will have to be  
3 financed by raising taxes, borrowing from the public,  
4 cutting spending, or reducing benefits. The existence  
5 of large trust fund balances does not, by itself, have  
6 any impact on the Government's ability to pay bene-  
7 fits.

8 (6) Faster economic growth will not solve the  
9 problem. Under the Board of Trustees' 2003 Report,  
10 Social Security's yearly deficits will increase signifi-  
11 cantly every year. By 2038, Social Security will re-  
12 quire more than 1 trillion a year in addition to the  
13 money raised through payroll taxes. By 2078, the  
14 annual Social Security deficit will be as large as the  
15 national debt in 2003. Even worse, these deficits will  
16 stretch far beyond the 75-year budget window with  
17 no sign of returning to balance. No amount of eco-  
18 nomic growth can overcome these substantial yearly  
19 deficits.

20 (7) The primary reason for this financial short-  
21 fall is demographic. In 1960 there were more than  
22 five workers paying into Social Security for every in-  
23 dividual collecting benefits. Today, demographic  
24 changes have reduced the worker-to-beneficiary ratio  
25 to 3.4 to 1. By 2050, it will be just 2 to 1.

1           (8) If reforms are not made, younger workers  
2 will receive lower benefits for every dollar they pay  
3 into the current system. The inflation-adjusted rate  
4 of return averaged more than 25 percent annually  
5 for Social Security’s first retirees in the 1940s, but  
6 are estimated to average roughly 4 percent for to-  
7 day’s retirees, roughly 2 percent for “baby  
8 boomers,” and 1 percent for those who will be born  
9 40 years from now. Since these figures do not in-  
10 clude the extra cost of meeting Social Security’s  
11 needs from 2018 to 2042, real rates of return for  
12 younger workers will likely be even lower.

13           (9) If reforms are not made, Social Security  
14 payroll taxes will have to be raised to balance the  
15 system over the next 75 years. When Social Security  
16 was first started, its tax was never supposed to go  
17 higher than 6 percent. Today, it is over 12 percent  
18 and if something is not done, it will go over 18 per-  
19 cent. Americans pay far too much into Social Secu-  
20 rity for what they receive to have their payroll taxes  
21 raised again.

22           (10) Inasmuch as payroll taxes already con-  
23 stitute the single largest tax burden for most Amer-  
24 ican families, payroll tax increases will further harm  
25 low and middle income American families and add to

1 the burden on employers. This would especially af-  
2 fect small businesses and harm job creation.

3 (11) If reforms are not made and payroll taxes  
4 are not raised, Social Security benefits will have to  
5 be cut by 35 percent to balance the system over the  
6 next 75 years. Seniors rely too heavily on Social Se-  
7 curity for their retirement security and it would be  
8 unfair to reduce their promised benefits.

9 (12) Social Security is currently a Government-  
10 controlled, Government-owned program that does  
11 not save a penny for workers' retirement. Instead, it  
12 requires each generation to support the generation  
13 that came before it. With demographic changes, this  
14 structure passes on higher taxes, fewer benefits, and  
15 lower rates of return to younger Americans.

16 (13) In its current form, Social Security  
17 hinders wealth creation and accumulation. While So-  
18 cial Security does an adequate job of providing some  
19 Americans a steady poverty level income, it should  
20 also allow workers to build a nest egg that they can  
21 use to improve their retirement income, provide free-  
22 dom and security in retirement, send grandchildren  
23 to college, or leave wealth to the next generation.  
24 Americans should have more to show for a lifetime  
25 of work than a small monthly check.

1           (14) Social Security does not currently help the  
2 low-income workers enough. The average monthly  
3 Social Security benefit check hovers at the poverty  
4 level. Despite popular perceptions, this means that  
5 in retirement the poor barely have enough money to  
6 sustain themselves on a monthly basis, and nothing  
7 to leave their children after their death.

8           (15) More than 50 percent of American house-  
9 holds are invested in the economy. However, low-in-  
10 come and working poor individuals do not have ac-  
11 cess to the investment tools that help the middle  
12 class prosper and succeed. Personal Social Security  
13 savings accounts would allow even the poorest work-  
14 ers to participate in a growing economy.

15           (16) Social Security is currently unfair to mi-  
16 norities. A survey by the Federal Reserve Board of  
17 Governors shows that the wealth gap between whites  
18 and African-Americans is growing, despite the fact  
19 that the income gap between them is decreasing. As  
20 a result, white households have five to ten times as  
21 much wealth as black households. If this trend con-  
22 tinues, this lack of wealth will prevent African-Amer-  
23 icans from having the assets necessary to prosper  
24 and succeed, prohibiting full participation in the  
25 American dream. Personal savings accounts can pro-

1       vide a minimum level of investment that will help  
2       the poor build capital and wealth.

3               (17) As a result of mortality differences, Afri-  
4       can Americans receive nearly \$21,000 less on a life-  
5       time basis from Social Security's retirement pro-  
6       gram than whites with similar income and marital  
7       status. Because they are younger than the general  
8       population, disproportionate numbers of Hispanic  
9       Americans will enter retirement having received  
10      below the market rates of return from the Social Se-  
11      curity program.

12              (18) Social Security is currently unfair to  
13      women who do not work for the required amount of  
14      time or would receive very low benefits based on  
15      their own earnings. Many women who have paid into  
16      Social Security over their working lives find that  
17      their best option is to claim benefits on their hus-  
18      band's contributions rather than on their own work  
19      history. Consequently, they get no return on the  
20      money they paid into a system. Personal savings ac-  
21      counts would allow women to build wealth with their  
22      own money, which can be combined with their hus-  
23      band's contributions for even larger benefit levels.

24              (19) Social Security's rigid benefit structure  
25      does not provide hard-working Americans with the

1 flexibility to plan and shape their retirements to best  
2 suit their various lifestyles and life expectancies.

3 (20) Social Security is creating a culture of de-  
4 pendency. As the population ages, more and more  
5 Americans are becoming dependent on the govern-  
6 ment for their retirement income. This trend robs  
7 older Americans of their freedom, independence, and  
8 dignity.

9 (21) Social Security does not currently offer  
10 Americans any guarantee that they will receive their  
11 benefits. According to the United States Supreme  
12 Court, Americans do not own their Social Security  
13 benefits. In fact, the Court has said that Congress  
14 has the right “to alter, amend, or repeal any provi-  
15 sion” of Social Security at any time. Americans have  
16 only a tenuous promise that Congress can change at  
17 any time, by any amount, and for any reason.

18 (22) Personal savings accounts would transform  
19 Social Security from an IOU into real assets that in-  
20 dividuals could own and pass along to their children.  
21 Personal savings accounts would enable Social Secu-  
22 rity to start saving real economic assets for the first  
23 time, locking them away so they cannot be spent on  
24 non-Social Security programs.

1           (23) Personal savings accounts would generate  
2 higher returns on the payroll taxes currently paid  
3 into Social Security, drastically reducing the finan-  
4 cial shortfall in the system and paving the way for  
5 a fully funded system that is permanently self-sus-  
6 taining.

7           (24) Personal savings accounts would correct  
8 Social Security's inequities for the poor, minorities,  
9 and women by offering everyone ownership, inde-  
10 pendence, and access to wealth.

11       (b) PURPOSES.—The Congress finds that it must act  
12 to reform the Social Security system so that—

13           (1) Social Security benefits are not changed for  
14 current retirees and near-retirees;

15           (2) payroll taxes and other Social Security  
16 taxes are not increased;

17           (3) Social Security surpluses are not used for  
18 other programs;

19           (4) Social Security taxes are only used to ben-  
20 efit workers;

21           (5) the Government will not invest in the stock  
22 market;

23           (6) Social Security's disability and survivors  
24 components are maintained;

1           (7) the current Social Security safety net is  
2 preserved and strengthened through individually  
3 owned, voluntary personal savings accounts;

4           (8) the current safety net is strengthened to  
5 give all workers with a personal savings account the  
6 opportunity to receive more than their currently  
7 promised benefits;

8           (9) low-income workers will be allowed to save  
9 a larger portion of their payroll taxes than higher in-  
10 come workers, helping many low-income Americans  
11 accumulate savings sufficient to pay retirement in-  
12 come higher than the current system;

13           (10) younger workers are empowered with gen-  
14 erous savings that offer them the ability to com-  
15 pletely own their retirement benefits;

16           (11) the transition to a funded system is fi-  
17 nanced from the general budget, which has taken  
18 money from Social Security for years; and

19           (12) the long-term solvency of the system is  
20 guaranteed for at least 75 years, and cash-flow defi-  
21 cits are completely eliminated, making Social Secu-  
22 rity permanently self-sustaining.

1 **SEC. 3. INDIVIDUAL SOCIAL SECURITY ACCOUNT PROGRAM**  
2 **AND INDIVIDUAL SOCIAL SECURITY AC-**  
3 **COUNTS.**

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

6 (1) by inserting before section 201 the fol-  
7 lowing:

8 “PART A—INSURANCE BENEFITS”;

9 and

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

11 “PART B—INDIVIDUAL SOCIAL SECURITY ACCOUNT

12 PROGRAM

13 “DEFINITIONS

14 “SEC. 251. For purposes of this part—

15 “(1) ELIGIBLE INDIVIDUAL.—The term ‘eligible  
16 individual’ means an individual described in section  
17 255(a) with respect to whom an election filed under  
18 section 255(b) renouncing such status has not been  
19 filed or has not taken effect, or with respect to  
20 whom an election filed under section 255(c) rein-  
21 stating such status has taken effect.

22 “(2) ACCOUNT OWNER.—The term ‘account  
23 owner’ means an eligible individual holding an indi-  
24 vidual social security account.

25 “(3) INDIVIDUAL SOCIAL SECURITY AC-  
26 COUNT.—The term “individual social security ac-

1       count” means an account established under section  
2       256.

3               “(4) ACCOUNT.—The term ‘account’ means an  
4       individual social security account.

5               “(5) ACCOUNT BALANCE.—The term ‘account  
6       balance’ means, in connection with an individual so-  
7       cial security account, the amount in the Savings  
8       Fund credited to such account.

9               “(6) SAVINGS FUND.—The term ‘Savings Fund’  
10       means the Social Security Personal Savings Fund  
11       established under section 252.

12              “(7) EXECUTIVE DIRECTOR.—The term ‘Execu-  
13       tive Director’ means the Executive Director ap-  
14       pointed under section 253.

15              “(8) BOARD.—The term ‘Board’ means the  
16       Personal Savings Board established under section  
17       252.

18              “(9) DISTRIBUTION BASE.—The term ‘distribu-  
19       tion base’ has the meaning provided such term  
20       under section 260(c).

21              “(10) ELIGIBILITY FOR MONTHLY INSURANCE  
22       BENEFITS.—An individual shall be deemed ‘eligible’  
23       for a benefit under section 202 for a month if, upon  
24       filing application therefor in such month, such indi-

1       vidual would be entitled to such benefit for such  
2       month.

3                       “PERSONAL SAVINGS BOARD

4       “SEC. 252. (a) ESTABLISHMENT.—There is estab-  
5       lished in the executive branch of the Government a Per-  
6       sonal Savings Board.

7       “(b) COMPOSITION.—The Board shall be composed  
8       of—

9               “(1) 3 members appointed by the President, of  
10       whom 1 shall be designated by the President as  
11       Chairman; and

12               “(2) 2 members appointed by the President, of  
13       whom—

14               “(A) 1 shall be appointed by the President  
15       after taking into consideration the recommenda-  
16       tion made by the Speaker of the House of Rep-  
17       resentatives in consultation with the Minority  
18       Leader of the House of Representatives; and

19               “(B) 1 shall be appointed by the President  
20       after taking into consideration the recommenda-  
21       tion made by the Majority Leader of the Senate  
22       in consultation with the Minority Leader of the  
23       Senate.

24       “(c) ADVICE AND CONSENT.—Appointments under  
25       subsection (b) shall be made by and with the advice and  
26       consent of the Senate.

1       “(d) MEMBERSHIP REQUIREMENTS.—Members of  
2 the Board shall have substantial experience, training, and  
3 expertise in the management of financial investments and  
4 pension benefit plans.

5       “(e) LENGTH OF APPOINTMENTS.—

6           “(1) TERMS.—A member of the Board shall be  
7 appointed for a term of 4 years, except that of the  
8 members first appointed under subsection (b)—

9           “(A) the Chairman shall be appointed for  
10 a term of 4 years;

11           “(B) the members appointed under sub-  
12 section (b)(2) shall be appointed for terms of 3  
13 years; and

14           “(C) the remaining members shall be ap-  
15 pointed for terms of 2 years.

16       “(2) VACANCIES.—

17           “(A) IN GENERAL.—A vacancy on the  
18 Board shall be filled in the manner in which the  
19 original appointment was made and shall be  
20 subject to any conditions that applied with re-  
21 spect to the original appointment.

22           “(B) COMPLETION OF TERM.—An indi-  
23 vidual chosen to fill a vacancy shall be ap-  
24 pointed for the unexpired term of the member  
25 replaced.

1           “(3) EXPIRATION.—The term of any member  
2 shall not expire before the date on which the mem-  
3 ber’s successor takes office.

4           “(f) DUTIES.—The Board shall—

5           “(1) administer the program established under  
6 this part;

7           “(2) establish policies for the investment and  
8 management of the Savings Fund, including policies  
9 applicable to the outside entities and qualified pro-  
10 fessional asset managers with responsibility for man-  
11 aging the investment of account balances under sec-  
12 tion 258, that shall provide for—

13           “(A) prudent investments suitable for ac-  
14 cumulating funds for payment of retirement in-  
15 come; and

16           “(B) low administrative costs.

17           “(3) review the performance of investments  
18 made for the Savings Fund;

19           “(4) review and approve the budget of the  
20 Board; and

21           “(5) comply with the provisions of section 263.

22           “(g) ADMINISTRATIVE PROVISIONS.—

23           “(1) IN GENERAL.—The Board may—

24           “(A) adopt, alter, and use a seal;

1           “(B) except as provided in paragraph (2),  
2           direct the Executive Director to take such ac-  
3           tion as the Board considers appropriate to  
4           carry out the provisions of this part and the  
5           policies of the Board;

6           “(C) upon the concurring votes of 4 mem-  
7           bers, remove the Executive Director from office  
8           for good cause shown;

9           “(D) provide to the Executive Director  
10          such resources as are necessary to carry out the  
11          requirements of section 253; and

12          “(E) take such other actions as may be  
13          necessary to carry out the functions of the  
14          Board.

15          “(2) MEETINGS.—The Board shall meet—

16                 “(A) not less than once during each  
17                 month; and

18                 “(B) at additional times at the call of the  
19                 Chairman.

20          “(3) EXERCISE OF POWERS.—

21                 “(A) IN GENERAL.—Except as provided in  
22                 paragraph (1)(C) and section 253(a)(1), the  
23                 Board shall perform the functions and exercise  
24                 the powers of the Board on a majority vote of  
25                 a quorum of the Board. Three members of the

1 Board shall constitute a quorum for the trans-  
2 action of business.

3 “(B) VACANCIES.—A vacancy on the  
4 Board shall not impair the authority of a  
5 quorum of the Board to perform the functions  
6 and exercise the powers of the Board.

7 “(4) LIMITATION ON INVESTMENTS.—Except in  
8 the case of investments required by section 258 to  
9 be invested in special Trust Fund obligations, the  
10 Board may not direct the Executive Director or any  
11 account trustee to invest or to cause to be invested  
12 any sums in the Savings Fund in a specific asset  
13 or to dispose of or cause to be disposed of any spe-  
14 cific asset of the Savings Fund.

15 “(h) COMPENSATION.—

16 “(1) IN GENERAL.—Each member of the Board  
17 who is not an officer or employee of the Federal  
18 Government shall be compensated at the daily rate  
19 of basic pay for level IV of the Executive Schedule  
20 for each day during which such member is engaged  
21 in performing a function of the Board.

22 “(2) EXPENSES.—A member of the Board shall  
23 be paid travel, per diem, and other necessary ex-  
24 penses under subchapter I of chapter 57 of title 5,  
25 United States Code, while traveling away from such

1 member's home or regular place of business in the  
2 performance of the duties of the Board.

3 “(3) SOURCE OF FUNDS.—Payments authorized  
4 under this subsection shall be paid from the Savings  
5 Fund.

6 “(i) DISCHARGE OF RESPONSIBILITIES.—The mem-  
7 bers of the Board shall discharge their responsibilities  
8 solely in the interest of account owners and beneficiaries  
9 under this part.

10 “(j) ANNUAL INDEPENDENT AUDIT.—The Board  
11 shall annually engage an independent qualified public ac-  
12 countant to audit the activities of the Board.

13 “(k) SUBMISSION OF BUDGET TO CONGRESS.—The  
14 Board shall prepare and submit to the President, and, at  
15 the same time, to the appropriate committees of Congress,  
16 an annual budget of the expenses and other items relating  
17 to the Board which shall be included as a separate item  
18 in the budget required to be transmitted to Congress  
19 under section 1105 of title 31, United States Code.

20 “(l) SUBMISSION OF LEGISLATIVE RECOMMENDA-  
21 TIONS.—The Board may submit to the President, and, at  
22 the same time, shall submit to each House of Congress,  
23 any legislative recommendations of the Board relating to  
24 any of its functions under this part or any other provision  
25 of law.

1                                   “EXECUTIVE DIRECTOR

2           “SEC 253. (a) APPOINTMENT OF EXECUTIVE DIREC-  
3 TOR.—

4                   “(1) IN GENERAL.—The Board shall appoint,  
5 without regard to the provisions of law governing  
6 appointments in the competitive service, an Execu-  
7 tive Director by action agreed to by a majority of  
8 the members of the Board.

9                   “(2) REQUIREMENTS.—The Executive Director  
10 shall have substantial experience, training, and ex-  
11 pertise in the management of financial investments  
12 and pension benefit plans.

13           “(b) DUTIES.—The Executive Director shall—

14                   “(1) carry out the policies established by the  
15 Board;

16                   “(2) invest and manage the Savings Fund in  
17 accordance with the investment policies and other  
18 policies established by the Board;

19                   “(3) provide for the distribution of individual  
20 social security account balances in accordance with  
21 this part (including the purchase of annuity con-  
22 tracts with assets of the Savings Fund to the extent  
23 provided under section 260(b)(5));

24                   “(4) administer the provisions of this part re-  
25 lating to the Savings Fund; and

1           “(5) prescribe such regulations (other than reg-  
2           ulations relating to fiduciary responsibilities) as may  
3           be necessary for the administration of this part re-  
4           lating to the Savings Fund.

5           “(c) ADMINISTRATIVE AUTHORITY.—The Executive  
6 Director may—

7           “(1) appoint such personnel as may be nec-  
8           essary to carry out the provisions of this part relat-  
9           ing to the Savings Fund;

10           “(2) subject to approval by the Board, procure  
11           the services of experts and consultants under section  
12           3109 of title 5, United States Code;

13           “(3) secure directly from an Executive agency,  
14           the United States Postal Service, or the Postal Rate  
15           Commission any information necessary to carry out  
16           the provisions of this part and the policies of the  
17           Board relating to the Savings Fund;

18           “(4) make such payments out of sums in the  
19           Savings Fund as the Executive Director determines  
20           are necessary to carry out the provisions of this part  
21           and the policies of the Board;

22           “(5) pay the compensation, per diem, and travel  
23           expenses of individuals appointed under paragraphs  
24           (1), (2), and (6) from the Savings Fund;

1           “(6) accept and use the services of individuals  
2           employed intermittently in the Government service  
3           and reimburse such individuals for travel expenses,  
4           authorized by section 5703 of title 5, United States  
5           Code, including per diem as authorized by section  
6           5702 of such title;

7           “(7) except as otherwise expressly prohibited by  
8           law or the policies of the Board, delegate any of the  
9           Executive Director’s functions to such employees  
10          under the Board as the Executive Director may des-  
11          ignate and authorize such successive redelegations of  
12          such functions to such employees under the Board  
13          as the Executive Director may consider to be nec-  
14          essary or appropriate; and

15          “(8) take such other actions as are appropriate  
16          to carry out the functions of the Executive Director.

17          “SOCIAL SECURITY PERSONAL SAVINGS FUND

18          “SEC. 254. (a) ESTABLISHMENT OF SAVINGS  
19          FUND.—There is established in the Treasury of the  
20          United States a Social Security Personal Savings Fund,  
21          consisting of all amounts transferred to or deposited in  
22          the Savings Fund in accordance with section 257, in-  
23          creased by the total net earnings from investments of  
24          sums in the Savings Fund or reduced by the total net  
25          losses from investments of the Savings Fund, and reduced

1 by the total amount of payments made from the Savings  
2 Fund (including payments for administrative expenses).

3 “(b) AVAILABILITY.—The sums in the Savings Fund  
4 are appropriated and shall remain available without fiscal  
5 year limitation—

6 “(1) to invest under section 258;

7 “(2) to make distributions in accordance with  
8 sections 260 and 261;

9 “(3) to pay the administrative expenses of the  
10 Board; and

11 “(4) to purchase insurance as provided in sec-  
12 tion 263(e).

13 “(c) LIMITATIONS ON USE OF FUNDS.—

14 “(1) IN GENERAL.—Sums in the Savings Fund  
15 credited to an individual social security account in  
16 the Savings Fund may not be used for, or diverted  
17 to, purposes other than for the exclusive benefit of  
18 the account owner or the account owner’s bene-  
19 ficiaries under this part.

20 “(2) ASSIGNMENTS.—Except as provided in  
21 paragraph (3), sums in the Savings Fund may not  
22 be assigned or alienated and are not subject to exe-  
23 cution, levy, attachment, garnishment, or other legal  
24 process.



1           “(3) has been assigned a social security account  
2           number under section 205(c),  
3 shall be an eligible individual under this part.

4           “(b) RENUNCIATION OF STATUS AS ELIGIBLE INDI-  
5 VIDUAL.—

6           “(1) IN GENERAL.—Within 540 days after the  
7           later of January 1, 2005, or the date on which an  
8           eligible individual first meets all requirements of  
9           subsection (a), such individual may elect to renounce  
10          such individual’s status under this part as an ‘eligi-  
11          ble individual’ by filing an election under this sub-  
12          section.

13          “(2) REQUIREMENTS.—An election under this  
14          subsection must be filed with the Commissioner, in  
15          such form and manner as shall be prescribed in reg-  
16          ulations of the Commissioner, and shall consist of a  
17          written and signed declaration of such individual’s  
18          intention to renounce such individual’s status as an  
19          eligible individual under this part. The Commis-  
20          sioner shall provide for immediate notification to the  
21          Board and the Executive Director of such election.

22          “(3) TERMINATION OF STATUS.—An election  
23          under this subsection shall be effective with respect  
24          to wages earned, and self-employment income de-  
25          rived, on or after January 1 following the date of

1 the filing of the election. On and after the effective  
2 date of the election the individual filing the election  
3 shall cease to be an eligible individual under this  
4 part, any individual social security account estab-  
5 lished for such individual shall be closed, and any  
6 balance in such account shall be paid into the Fed-  
7 eral Old-Age and Survivor's Insurance Trust Fund  
8 as general receipts.

9 “(c) REINSTATEMENT.—

10 “(1) IN GENERAL.—Any individual who has  
11 filed an election under subsection (b) to renounce  
12 such individual's status as an eligible individual  
13 under this part may elect under this subsection to  
14 reinstate such individual's status as an eligible indi-  
15 vidual.

16 “(2) REQUIREMENTS.—An election by an indi-  
17 vidual under this subsection must be filed with the  
18 Commissioner, in such form and manner as shall be  
19 prescribed in regulations of the Commissioner, con-  
20 sisting of a written and signed declaration of such  
21 individual's intention to reinstate such individual's  
22 status as an eligible individual under this part. Such  
23 regulations shall provide for regular, periodic oppor-  
24 tunities for the filing of such an election. The Com-  
25 missioner shall provide for immediate notification to

1 the Board and the Executive Director of such elec-  
2 tion.

3 “(3) TERMINATION OF STATUS.—An election  
4 under this subsection shall be effective with respect  
5 to wages earned, and self-employment income de-  
6 rived, on or after January 1 following the date of  
7 the filing of the election. The individual filing the  
8 election shall be treated as becoming an eligible indi-  
9 vidual under this part on the effective date of the  
10 election as if such individual first met the require-  
11 ments of subsection (a) on such date.

12 “(4) IRREVOCABILITY.—An election under this  
13 subsection shall be irrevocable.

14 “INDIVIDUAL SOCIAL SECURITY ACCOUNTS

15 “SEC. 256. (a) ESTABLISHMENT OF A PUBLICLY AD-  
16 MINISTERED SYSTEM OF INDIVIDUAL SOCIAL SECURITY  
17 ACCOUNTS.—As soon as practicable after the later of Jan-  
18 uary 1, 2004, or the date on which an individual becomes  
19 an eligible individual under this part, the Executive Direc-  
20 tor shall establish in the Savings Fund an individual social  
21 security account for such individual. Each account shall  
22 be identified to its account owner by means of the account  
23 owner’s social security account number. The Savings  
24 Fund shall accept any prescribed social security deposit  
25 made with respect to any eligible individual as provided  
26 in section 257. The Executive Director shall credit such

1 deposit to such individual's individual social security ac-  
2 count.

3       “(b) ACCOUNT BALANCE.—The balance in an ac-  
4 count owner's account at any time is the excess of—

5             “(1) the sum of all deposits and contributions  
6             described in subsection (a) credited to such account,  
7             subject to such increases and reductions as may re-  
8             sult from allocations made to and reductions made  
9             in the account pursuant to subsection (c), over

10            “(2) amounts credited to such account and paid  
11            out of the Savings Fund with respect to such ac-  
12            count owner under this part.

13       “(c) ALLOCATION OF EARNINGS AND LOSSES.—Pur-  
14 suant to regulations which shall be prescribed by the  
15 Board, the Executive Director shall allocate to each indi-  
16 vidual social security account an amount equal to the net  
17 earnings and net losses from each investment of sums in  
18 the Social Security Personal Savings Fund which are at-  
19 tributable, on a pro rata basis, to sums credited to such  
20 account, reduced by an appropriate share of the adminis-  
21 trative expenses paid out of the net earnings, as deter-  
22 mined by the Executive Director.

23            “PRESCRIBED SOCIAL SECURITY DEPOSITS

24       “SEC. 257. (a) IN GENERAL.—As soon as prac-  
25 ticable, the Secretary of the Treasury shall transfer  
26 amounts equivalent to 100 percent of the prescribed social

1 security deposit for each eligible individual for each year  
2 from the Federal Old-Age and Survivors Insurance Trust  
3 Fund to the Social Security Personal Savings Fund, for  
4 subsequent crediting with respect to such individual under  
5 section 256. Such transfers shall be made in periodic in-  
6 stallments, such installments to be determined, to the ex-  
7 tent necessary, on the basis of estimates by the Commis-  
8 sioner of Social Security of wages and self-employment in-  
9 come, which shall be certified to the Secretary of the  
10 Treasury. Proper adjustments shall be made in amounts  
11 transferred for subsequent periods to the extent that  
12 amounts transferred for prior periods were greater or less  
13 than the proper amounts. Upon determining the actual  
14 amount of the prescribed social security deposit for an eli-  
15 gible individual for each year, the Executive Director shall  
16 promptly credit such amount to such individual's indi-  
17 vidual social security account under section 256. Prior to  
18 such crediting of amounts held in the Savings Fund to  
19 individual social security accounts, such amounts shall be  
20 invested by the Executive Director as provided in section  
21 258 in accordance with regulations of the Board.

22       “(b) PRESCRIBED SOCIAL SECURITY DEPOSITS.—  
23 For purposes of this part, the prescribed social security  
24 deposit for an eligible individual for any calendar year is  
25 an amount equal to the sum of—

1 “(1) the product derived by multiplying—

2 “(A) such individual’s wages paid, and  
3 self-employment income derived, in such cal-  
4 endar year (as certified to the Secretary of the  
5 Treasury by the Commissioner of Social Secu-  
6 rity) not in excess of the contribution and ben-  
7 efit base for such calendar year, by

8 “(B) such individual’s transfer percentage  
9 for such calendar year, and

10 “(2) the net return on the investment, in ac-  
11 cordance with section 258, of amounts equivalent to  
12 the product determined under paragraph (1) during  
13 the period such amounts were held in the Savings  
14 Fund prior to deposit in such individual’s individual  
15 social security account.

16 “(c) TRANSFER PERCENTAGE.—For purposes of sub-  
17 section (b)(1)(B), the term ‘transfer percentage’ of an in-  
18 dividual for a calendar year means the excess of—

19 “(1) 8.00 percent, over

20 “(2) the product derived by multiplying—

21 “(A) 5.00 percent, by

22 “(B) a fraction—

23 “(i) the numerator of which is the  
24 amount of such individual’s wages paid,  
25 and self-employment income derived, in



1 ticable, that, of the total balance available for investment  
2 (after allowing for administrative expenses)—

3 “(1) 35 percent is invested in United States  
4 Government obligations in accordance with sub-  
5 section (c), and

6 “(2) the remainder is invested in common stock  
7 in accordance with subsection (d).

8 “(c) INVESTMENT IN SOCIAL SECURITY TRANSITION  
9 BONDS AND OTHER UNITED STATES TREASURY OBLIGA-  
10 TIONS.—

11 “(1) PURCHASE BY THE BOARD OF SOCIAL SE-  
12 CURITY TRANSITION BONDS.—To the extent nec-  
13 essary to provide for investment of the portion of the  
14 account balance required to be invested as provided  
15 in subsection (b)(1), the Executive Director shall  
16 purchase Social Security Transition Bonds made  
17 available by the Managing Trustee of the Federal  
18 Old-Age and Survivors Insurance Trust Fund for  
19 purchase pursuant to paragraph (2) .

20 “(2) ISSUANCE OF BONDS.—To the extent de-  
21 termined necessary by the Managing Trustee of the  
22 Federal Old-Age and Survivors Insurance Trust  
23 Fund to avoid a negative cash flow for such Trust  
24 Fund, the Managing Trustee shall issue special obli-  
25 gations of such Trust Fund (to be known as ‘Social

1 Security Transition Bonds’) for purchase by the Ex-  
2 ecutive Director under paragraph (1), in such forms  
3 and denominations, bearing such maturities, and  
4 subject to such terms and conditions as may be pre-  
5 scribed by the Managing Trustee.

6 “(3) PURCHASE OF OUTSTANDING MARKET-  
7 ABLE LONG-TERM TREASURY SECURITIES.—To the  
8 extent that purchase of Social Security Transition  
9 Bonds made available pursuant to paragraph (2) is  
10 insufficient to provide for investment in full of the  
11 portion of the account balance required to be in-  
12 vested as provided in subsection (b)(1), the Execu-  
13 tive Director shall invest the account balance in  
14 United States Treasury bills issued under chapter  
15 31 of title 31, United States Code, bearing interest  
16 at a rate at least equal to the average market yield  
17 (computed by the Managing Trustee on the basis of  
18 market quotations as of the end of the calendar  
19 month next preceding the date of issue of such obli-  
20 gations) on all marketable interest-bearing obliga-  
21 tions of the United States then forming a part of the  
22 public debt which are not due or callable earlier than  
23 4 years after the end of such calendar month.

24 “(d) INVESTMENT IN COMMON STOCK.—

1           “(1) IN GENERAL.—The Board shall establish  
2           by regulation standards which must be met by com-  
3           mon stock selected for investment of the portion of  
4           any balance required to be invested in common stock  
5           under subsection (b).

6           “(2) STANDARD OPTION.—In conformity with  
7           such standards, the Board shall select, for purposes  
8           of such investment, an index which is a commonly  
9           recognized index comprised of common stock the ag-  
10          gregate market value of which is a reasonably com-  
11          plete representation of the United States equity  
12          markets. Except to the extent otherwise elected by  
13          an account owner under subsection (e) with respect  
14          to the balance credited to the account owner’s ac-  
15          count, the amount of any balance which is required  
16          to be invested in common stock under subsection  
17          (b)(2) shall be invested in a portfolio designed to  
18          replicate the performance of such index. Such port-  
19          folio shall be referred to as the ‘Standard Option’  
20          for such calendar year.

21          “(e) ANNUAL OPPORTUNITY TO ELECT ALTER-  
22          NATIVE INVESTMENT OPTIONS.—

23                 “(1) ELECTION OF APPLICABLE PORTFOLIOS.—

24                         “(A) IN GENERAL.—In any case in which,  
25                         as of the end of the second quarter of any cal-

1           endar year, the balance of an individual social  
2           security account exceeds the election threshold  
3           specified in subparagraph (B) for such calendar  
4           year, the Board shall provide by regulation for  
5           an opportunity, during the third quarter of  
6           such calendar year, for such account owner to  
7           elect one or both portfolios described in para-  
8           graph (2) as applicable portfolios, in connection  
9           with such account, for the following calendar  
10          year, in lieu of or in addition to the Standard  
11          Option. In the case of such an election,  
12          amounts in the account invested in stock shall  
13          be allocated during such calendar year among  
14          the portfolio or portfolios so elected for such  
15          calendar year, in percentages specified in the  
16          election by the account owner for each applica-  
17          ble portfolio.

18                 “(B) ELECTION THRESHOLD.—The elec-  
19                 tion threshold specified in this subparagraph  
20                 for calendar year 2005 is \$5,000. The Execu-  
21                 tive Director shall, on or before November 1 of  
22                 2005 and of every year thereafter, determine  
23                 and publish in the Federal Register the election  
24                 threshold for the succeeding calendar year.  
25                 Such election threshold shall be the larger of—

1           “(i) the amount in effect for the cal-  
2           endar year in which the determination  
3           under this subparagraph is made, or

4           “(ii) the product of \$5,000 and the  
5           ratio of the national average wage index  
6           (as defined in section 209(k)(1)) for the  
7           calendar year before the year in which the  
8           determination under this subparagraph is  
9           made to the national average wage index  
10          (as so defined) for 2003,

11          with such product, if not a multiple of \$10,  
12          being rounded to the next higher multiple of  
13          \$10 where such amount is a multiple of \$5 but  
14          not of \$10 and to the nearest multiple of \$10  
15          in any other case.

16          “(2) ADDITIONAL OPTIONS.—For purposes of  
17          paragraph (1)—

18                 “(A) SMALL CAPITALIZATION OPTION.—  
19                 The Board shall select an index which is a com-  
20                 monly recognized index comprised of small cap-  
21                 italization stock the aggregate market value of  
22                 which is a representation of publicly held com-  
23                 panies whose shares are traded on the small  
24                 capitalization equity markets of the United  
25                 States. The Board shall select for each calendar

1 year a portfolio of stock included in such index  
2 designed to replicate the performance of such  
3 index. Such portfolio shall be referred to as the  
4 ‘Small Capitalization Option’ for such calendar  
5 year. The portfolio shall be designed such that,  
6 to the extent practicable, the percentage of the  
7 total amount of the Savings Fund invested in  
8 such portfolio that is invested in each stock is  
9 the same as the percentage determined by di-  
10 viding the aggregate market value of all shares  
11 of that stock by the aggregate market value of  
12 all shares of all stocks included in such index.

13 “(B) MEDIUM CAPITALIZATION OPTION.—  
14 The Board shall select an index which is a com-  
15 monly recognized index comprised of medium  
16 capitalization stock the aggregate market value  
17 of which is a representation of publicly held  
18 companies whose shares are traded on the me-  
19 dium capitalization equity markets of the  
20 United States. The Board shall select for each  
21 calendar year a portfolio of stock included in  
22 such index designed to replicate the perform-  
23 ance of such index. Such portfolio shall be re-  
24 ferred to as the ‘Medium Capitalization Option’  
25 for such calendar year. The portfolio shall be

1 designed such that, to the extent practicable,  
2 the percentage of the total amount of the Sav-  
3 ings Fund invested in such portfolio that is in-  
4 vested in each stock is the same as the percent-  
5 age determined by dividing the aggregate mar-  
6 ket value of all shares of that stock by the ag-  
7 gregate market value of all shares of all stocks  
8 included in such index.

9 “(3) PUBLICATION OF AVAILABLE PORT-  
10 FOLIOS.—

11 “(A) IN GENERAL.—The Board shall pub-  
12 lish, prior to the third quarter of each calendar  
13 year, the Board’s determination of the relative  
14 breadth of diversification represented by the  
15 Standard Option, the Small Capitalization Op-  
16 tion, and the Medium Capitalization Option for  
17 the following calendar year pursuant to this  
18 subsection.

19 “(B) DEFAULT PORTFOLIO.—The Board  
20 shall clearly identify, in each publication of the  
21 3 options for a calendar year, the portfolio  
22 which is the Standard Option for such calendar  
23 year. In any case in which an account owner  
24 fails to make an election for a calendar year for  
25 any portion of the balance in the account, the

1 portfolio so identified by the Board as the  
2 Standard Option shall serve as the applicable  
3 portfolio for such calendar year in connection  
4 with such portion of the account.

5 “(4) VARIATION FROM THE STANDARD MIX BE-  
6 TWEEN STOCKS AND BONDS.—In accordance with  
7 regulations of the Board, in connection with any  
8 election under paragraph (1) for a calendar year, the  
9 account owner may also elect to vary for such cal-  
10 endar year, from the Standard Mix specified in sub-  
11 section (b), the allocation of the total balance in the  
12 account available for investment (after allowing for  
13 administrative expenses) between Social Security  
14 Transition Bonds and stock.

15 “(5) ELECTIONS EFFECTIVE FOR SUBSEQUENT  
16 YEARS.—Any election made under this subsection  
17 for any calendar year shall remain in effect for sub-  
18 sequent calendar years until an election providing  
19 otherwise is made under this subsection.

20 “(6) INFORMATIONAL ELECTION FORMS.—Elec-  
21 tions under this subsection shall be made on a form  
22 which shall be prescribed by the Board. Such form  
23 shall include a statement, in language formulated so  
24 as to be understood by the typical eligible individual,  
25 which describes the extent to which risk of loss

1 under the program established under this part may  
2 be avoided under section 235 by maintaining invest-  
3 ments under the Standard Option and in accordance  
4 with the Standard Mix. Each eligible individual who  
5 elects to invest in the Small Capitalization Option or  
6 the Medium Capitalization Option, or to vary the al-  
7 location of investment from the Standard Mix under  
8 subsection (b), shall sign an acknowledgement con-  
9 tained in such form which states that the individual  
10 understands that, while there is a chance that an  
11 election to invest in either such option or an election  
12 of such a variance may result in increased returns  
13 on investment, such an election is made at the indi-  
14 vidual's risk, that the individual is not protected  
15 against any loss on such investment or by reason of  
16 such variance, and that a return on any such invest-  
17 ment is not guaranteed by the Government.

18 “(f) LIMITATION ON VOTING RIGHTS.—The Board,  
19 the Executive Director, and any account owner may not  
20 exercise voting rights associated with the ownership of se-  
21 curities held in the Savings Fund.

22 “ACCOUNTING AND INFORMATION

23 “SEC. 259. (a) ANNUAL, INDEPENDENT AUDITS.—

24 “(1) INDEPENDENT ACCOUNTANT.—The Exec-  
25 utive Director shall annually engage, on behalf of all  
26 account owners under this part, an independent

1 qualified public accountant, who shall conduct an ex-  
2 amination of all accounts and other books and  
3 records maintained by the Executive Director under  
4 this part as the public accountant considers nec-  
5 essary to enable the public accountant to make the  
6 determination required by paragraph (2). The exam-  
7 ination shall be conducted in accordance with gen-  
8 erally accepted auditing standards and shall involve  
9 such tests of the accounts, books, and records as the  
10 public accountant considers necessary.

11 “(2) DETERMINATION REQUIRED.—The public  
12 accountant conducting an examination under para-  
13 graph (1) shall determine whether the accounts,  
14 books, and records referred to in such paragraph  
15 have been maintained in conformity with generally  
16 accepted accounting principles applied on a basis  
17 consistent with the manner in which such principles  
18 were applied during the examination conducted  
19 under such paragraph during the preceding year.  
20 The public accountant shall transmit to the Board  
21 a report on his examination, including his deter-  
22 mination under this paragraph.

23 “(3) RELIANCE ON ACTUARIAL MATTER.—In  
24 making a determination under paragraph (2), a pub-  
25 lic accountant may rely on the correctness of any ac-

1 tuarial matter certified by an accredited actuary if  
2 the public accountant states his reliance in the re-  
3 port transmitted to the Board under such para-  
4 graph.

5 “(4) DEFINITION.—In this subsection, the term  
6 ‘qualified public accountant’ shall have the same  
7 meaning as provided in section 103(a)(3)(D) of the  
8 Employee Retirement Income Security Act of 1974  
9 (29 U.S.C. 1023(a)(3)(D)).

10 “(b) STATEMENTS.—

11 “(1) IN GENERAL.—The Board shall prescribe  
12 regulations under which each account owner under  
13 this part shall be furnished by the Executive Direc-  
14 tor with a periodic statement relating to the account  
15 owner’s account, setting forth—

16 “(A) the current account balance,

17 “(B) a summary description of the invest-  
18 ments made pursuant to section 258, and

19 “(C) an evaluation of the performance of  
20 such investments over the 5-year period pre-  
21 ceeding the date as of which such evaluation is  
22 made.

23 “(2) TIMING.—Information under this sub-  
24 section shall be provided at least annually.

25 “ACCOUNT DISTRIBUTIONS

26 “SEC. 260. (a) IN GENERAL.—Subject to this part—

1           “(1) AVAILABILITY OF WITHDRAWALS.—On  
2 and after the date on which an account owner be-  
3 comes entitled to old-age insurance benefits under  
4 section 202(a), the entire balance in the account  
5 owner’s individual social security account shall be  
6 available for withdrawal in a distribution meeting  
7 the requirements of this section.

8           “(2) DISTRIBUTION OF BALANCES IN EXCESS  
9 OF THE DISTRIBUTION BASE.—Any amount with-  
10 drawn by the account owner pursuant to paragraph  
11 (1) which is in excess of the distribution base shall  
12 be payable to the account owner in such manner and  
13 in such amounts as may be determined by the ac-  
14 count owner (in such form and manner as shall be  
15 prescribed in regulations of the Board to provide for  
16 efficient and effective payment).

17           “(3) DISTRIBUTION OF BALANCES REP-  
18 RESENTING THE DISTRIBUTION BASE.—On and  
19 after the first date as of which an account owner be-  
20 comes entitled to old-age insurance benefits under  
21 section 202(a) and has requested commencement of  
22 distribution of the account owner’s distribution base,  
23 the Executive Director shall provide for withdrawal  
24 of the portion of the account balance which is not  
25 in excess of the distribution base of the account

1 owner in accordance with subsections (b) through  
2 (e).

3 “(b) DISTRIBUTION OF AMOUNTS IN DISTRIBUTION  
4 BASE IN MONTHLY ANNUITY PAYMENTS.—

5 “(1) IN GENERAL.—Except as otherwise pro-  
6 vided in this section, effective upon the date referred  
7 to in subsection (a)(3), the Executive Director shall  
8 transfer so much of the account balance as is not in  
9 excess of the distribution base of the account owner  
10 from the account owner’s account to amounts other-  
11 wise held in the Savings Fund. In exchange for the  
12 amounts transferred, the Executive Director shall  
13 provide, payable from the Saving Fund—

14 “(A) if the covered individual is not mar-  
15 ried on such date, an immediate single life an-  
16 nuity for the account owner, payable in monthly  
17 installments, or

18 “(B) if the account owner is married on  
19 such date, an immediate annuity for the joint  
20 lives of the covered individual and the covered  
21 individual’s spouse, payable in monthly install-  
22 ments, together with a survivor annuity to the  
23 one of them who survives the other of them for  
24 the life of the survivor payable in monthly in-  
25 stallments equal to  $66\frac{2}{3}$  percent of the monthly

1           payment of the annuity that would be payable  
2           if both spouses remained alive.

3           The annuity shall be payable in amounts so as to  
4           have an actuarial present value equal to such dis-  
5           tribution base, as determined on the basis of gen-  
6           erally accepted actuarial assumptions.

7           “(2) COST OF LIVING ADJUSTMENTS.—Any an-  
8           nuity provided for under this subsection shall pro-  
9           vide for annual indexing of the monthly payments  
10          according to the Consumer Price Index for All  
11          Urban Consumers (United States city average), pub-  
12          lished by the Bureau of Labor Statistics.

13          “(3) OPTIONAL CASH DISTRIBUTION.—

14                 “(A) IN GENERAL.—Effective on the date  
15                 referred to in subsection (a)(3), in lieu of a dis-  
16                 tribution of the account balance as described in  
17                 the preceding provisions of this subsection, the  
18                 account owner may elect, in such form and  
19                 manner as shall be prescribed by the Executive  
20                 Director—

21                         “(i) an annuity determined under this  
22                         subsection by substituting in paragraph (1)  
23                         for references to the distribution base ref-  
24                         erences to the reduced distribution base  
25                         described in subparagraph (B), and

1           “(ii) a distribution from the account  
2           in cash equal to the excess of the balance  
3           in the account over such reduced distribu-  
4           tion base.

5           “(B) REDUCTION IN AMOUNT AVAILABLE  
6           FOR ANNUITY FORM OF DISTRIBUTION.—For  
7           purposes of subparagraph (A), the amount of  
8           the reduced distribution base is an amount  
9           equal to the greater of—

10           “(i) 35 percent of the balance in the  
11           account, or

12           “(ii) an amount necessary (as deter-  
13           mined by the Executive Director) to fund  
14           an annuity providing annual payments in  
15           the amount of—

16           “(I) \$8,950, in any case in which  
17           no individual other than the account  
18           owner is eligible for benefits under  
19           section 202 based on the wages and  
20           self-employment income of the ac-  
21           count owner, or

22           “(II) \$12,120, in any other case.

23           “(C) COST-OF-LIVING ADJUSTMENT.—The  
24           Secretary shall adjust, for 2005 and for each  
25           calendar year thereafter, each dollar amount

1 specified in subparagraph (B)(ii) for increases  
2 in the cost-of-living in accordance with regula-  
3 tions prescribed by the Secretary. Such regula-  
4 tions shall provide for an adjustment with re-  
5 spect to each calendar year based on the in-  
6 crease in the Consumer Price Index for All  
7 Urban Consumers (United States city average),  
8 published by the Bureau of Labor Statistics, for  
9 the calendar quarter ending September 30 of  
10 the preceding calendar year over such index for  
11 the calendar quarter ending September 30,  
12 2003. Any increase under this clause which is  
13 not a multiple of \$10 shall be rounded to the  
14 next higher multiple of \$10 where such product  
15 is a multiple of \$5 but not of \$10 and to the  
16 nearest multiple of \$10 in any other case.

17 “(D) INVESTMENT OF 35 PERCENT  
18 AMOUNT IN BONDS.—In the case of a cash dis-  
19 tribution under this paragraph, the investment  
20 of a portion of the account balance equivalent  
21 to the 35 percent amount determined under  
22 subparagraph (B)(i) shall remain invested solely  
23 in the form described in section 258(d).

24 “(4) PURCHASE OF ANNUITIES.—The Executive  
25 Director shall, on an ongoing basis, survey the avail-

1 ability for purchase in the private sector of annuity  
2 contracts which would effectively assist in the dis-  
3 tribution of individual social security accounts under  
4 this subsection. If the Executive Director determines  
5 that the return on investment of funds held in the  
6 private sector for the purpose of funding such annu-  
7 ity contracts would be (taking into account applica-  
8 ble administrative expenses) at least equivalent to  
9 the rate of return on funds held in the Savings  
10 Fund pending distribution as described in paragraph  
11 (1), the Executive Director shall provide by regula-  
12 tion for the purchase of such annuity contracts as  
13 a means of providing for payment of the monthly  
14 payment amounts otherwise prescribed under para-  
15 graph (2). Any such annuity contract shall provide  
16 for investment of amounts held to fund the annuity  
17 in the manner prescribed in section 258(b)(1).

18 “(c) DISTRIBUTION BASE.—For purposes of this sec-  
19 tion, the distribution base of an account owner is the actu-  
20 arial present value of the expected future benefits payable  
21 under section 202 on the basis of the wages and self-em-  
22 ployment income of the account owner (determined with-  
23 out regard to section 215(a)(8)). The actuarial present  
24 value determined under this subsection shall be deter-  
25 mined as of the date described in subsection (a)(3). In

1 making assumptions under this subsection, the Executive  
2 Director shall take into account the reasonably anticipated  
3 period for which each beneficiary will remain eligible for  
4 benefits under section 202 based on the account owner's  
5 wages and self-employment income and the current ex-  
6 pected life expectancy of such beneficiary.

7       “(d) TREATMENT OF DIVORCE, ANNULMENT, AND  
8 LEGAL SEPARATION.—

9               “(1) REALLOCATION OF ACCOUNT BALANCES  
10       ATTRIBUTABLE TO PRESCRIBED SOCIAL SECURITY  
11       DEPOSITS.—

12               “(A) IN GENERAL.—Upon the issuance of  
13       a court decree of divorce or annulment in the  
14       case of an account owner and the account own-  
15       er's spouse before the date of the commence-  
16       ment of any distribution from the account own-  
17       er's individual social security account under  
18       subsections (a) and (b), 50 percent of the  
19       amount in such account which is attributable to  
20       prescribed social security deposits under section  
21       257(b) for calendar years ending during the pe-  
22       riod of marriage (and earnings thereon) shall be  
23       transferred from such account to the individual  
24       social security account of such spouse. In any  
25       case in which the spouse is not an eligible indi-

1           vidual, such spouse shall be deemed an eligible  
2           individual upon the date of the decree, and the  
3           transfer provided for under this paragraph shall  
4           be made upon the establishment of the spouse's  
5           individual social security account. This para-  
6           graph shall apply in connection with such a de-  
7           cree only if notice of such decree was received  
8           by the Executive Director before the date of the  
9           commencement of the distribution.

10           “(B) REVOCATION OF STATUS BY  
11           SPOUSE.—A spouse who is deemed an eligible  
12           individual under subparagraph (A) may, during  
13           the 540-day period beginning on the date of the  
14           decree of divorce or annulment, revoke his or  
15           her status as an eligible individual in a form  
16           and manner which shall be prescribed in regula-  
17           tions of the Board. Upon such a revocation, the  
18           spouse's individual social security account shall  
19           be closed and any amounts theretofore depos-  
20           ited in the account shall be transferred to the  
21           Federal Old-Age and Survivors Insurance Trust  
22           Fund.

23           “(2) TREATMENT OF ANNUITY PAYMENTS.—

24           “(A) IN GENERAL.—Subsections (a) and  
25           (b) shall be subject to the terms of any court

1 decree, order, or agreement described in sub-  
2 paragraph (B).

3 “(B) COURT DECREE, ORDER, OR AGREE-  
4 MENT DESCRIBED.—A court decree, order, or  
5 agreement described in this clause is, with re-  
6 spect to an account owner, a court decree of di-  
7 vorce, annulment, or legal separation issued in  
8 the case of such account owner and such ac-  
9 count owner’s spouse or any court order or  
10 court-approved property settlement agreement  
11 incident to such decree if—

12 “(i) the decree, order, or agreement  
13 expressly relates to any annuity under sub-  
14 section (b)(3), and

15 “(ii) notice of the decree, order, or  
16 agreement has been received by the Execu-  
17 tive Director and, with respect to any an-  
18 nuity payment, such notice was received  
19 before the date on which payment is made.

20 “(3) 2 OR MORE CASES.—The Board shall  
21 prescribe regulations under which this sub-  
22 section shall be applied in any case in which the  
23 Executive Director receives notice of 2 or more  
24 decrees, orders, or agreements referred to in  
25 paragraph (1) or (2).

1       “(e) LUMP-SUM PAYMENT REQUIRED FOR MINIMAL  
2 AMOUNTS.—Notwithstanding the preceding provisions of  
3 this section, if, upon entitlement of an account owner to  
4 old-age insurance benefits under section 202(a), the ac-  
5 count balance is below \$5,000, the entire account balance  
6 shall be distributed to the account owner in a single lump-  
7 sum amount.

8       “PAYMENTS UPON DEATH OF ACCOUNT OWNER

9       “SEC. 261. (a) DISTRIBUTION IN THE ABSENCE OF  
10 ELIGIBLE WIDOW OR WIDOWER.—

11           “(1) IN GENERAL.—Except as otherwise pro-  
12 vided in this section, upon the account owner’s death  
13 prior to the date described in section 260(a)(3), the  
14 account shall be payable in equal monthly install-  
15 ments (subject to paragraph (3)) to each individual  
16 (if any) who is a potential beneficiary under section  
17 202 based on the wages and self-employment income  
18 of the account owner.

19           “(2) DETERMINATION OF MONTHLY PAYMENT  
20 AMOUNTS.—

21           “(A) IN GENERAL.—The amounts payable  
22 to each individual under paragraph (1) in con-  
23 nection with an individual social security ac-  
24 count shall be determined so that the actuarial  
25 present value (as of the date referred to in sub-  
26 section (a)(3)) of the future payments to each

1 individual bears the same ratio to the actuarial  
2 present value (as of such date) of the total  
3 amount to be so payable to all individuals in  
4 connection with such account as the actuarial  
5 present value (as of such date) of the benefits  
6 for which such individual is (or will be) eligible  
7 based on such wages and self-employment in-  
8 come (determined without regard to section  
9 215(a)(8)) bears to the account owner's dis-  
10 tribution base (determined as if the date of the  
11 account owner's death were a date described in  
12 section 260(a)(3) and without any applicable  
13 reduction under section 260(b)(4)).

14 “(B) ASSUMPTIONS.—In determining the  
15 monthly amount to be payable to each indi-  
16 vidual, the Executive Director shall take into  
17 account the reasonably anticipated period for  
18 which such individual will remain eligible for  
19 benefits under section 202 based on the account  
20 owner's wages and self-employment income and  
21 the current expected life expectancy of such in-  
22 dividual.

23 “(b) TREATMENT OF SURVIVING SPOUSES ELIGIBLE  
24 FOR WIDOW'S OR WIDOWER'S INSURANCE BENEFITS.—

1           “(1) IN GENERAL.—In any case in which the  
2           account owner is survived by a spouse who is an eli-  
3           gible individual and who is also eligible for widow’s  
4           or widower’s insurance benefits under subsection (e)  
5           or (f) of section 202 based on the account owner’s  
6           wages and self-employment income, subsection (a)  
7           shall not apply, and the account balance remaining  
8           at the time of the account owner’s death shall be  
9           transferred to the individual social security account  
10          of such surviving spouse.

11           “(2) SPOUSES WHO ARE NOT ELIGIBLE INDI-  
12          VIDUALS.—

13           “(A) IN GENERAL.—In any case in which  
14           the surviving spouse is eligible for widow’s or  
15           widower’s insurance benefits under subsection  
16           (e) or (f) of section 202 based on the account  
17           owner’s wages and self-employment income but  
18           is not an eligible individual, such spouse shall  
19           be deemed an eligible individual upon the date  
20           of the account owner’s death, and the transfer  
21           provided for under this subsection shall be  
22           made upon the establishment of the spouse’s in-  
23           dividual social security account.

24           “(B) REVOCATION OF STATUS BY  
25          SPOUSE.—A spouse who is deemed an eligible

1 individual under subparagraph (A) may, during  
2 the 540-day period beginning on the date of the  
3 account owner's death, revoke his or her status  
4 as an eligible individual in a form and manner  
5 which shall be prescribed in regulations of the  
6 Board. Upon such a revocation, the spouse's in-  
7 dividual social security account shall be closed  
8 and any amounts theretofore deposited in the  
9 account shall be distributed, among all individ-  
10 uals who are potential beneficiaries (including  
11 the spouse) under section 202 based on the  
12 wages and self-employment income of the de-  
13 ceased account owner, in the same manner as  
14 is provided for distributions from the deceased  
15 account owner's account under subsection (a).

16 “(c) TREATMENT OF ACCOUNT BALANCE IN THE AB-  
17 SENCE OF SURVIVING POTENTIAL BENEFICIARIES.—In  
18 any case in which, upon the account holder's death, no  
19 distribution from the account holder's individual social se-  
20 curity account is provided for under subsection (a) or (b),  
21 the balance in the account shall be distributed to the es-  
22 tate of the account owner.

23 “(d) BAR ON OTHER RECOVERIES.—A payment  
24 made in accordance with subsection (a) shall bar any other

1 recovery by the individual receiving the payment and any  
2 other individual.

3 “TREATMENT OF ACCOUNT BALANCES AND ANNUITIES

4 “SEC. 262. For purposes of this part, amounts held  
5 in individual social security accounts and annuities pay-  
6 able under section 261 shall be treated as the personal  
7 property of the account owners and annuitants, respec-  
8 tively, and shall be held in trust by the Board for the ac-  
9 count owners and annuitants, respectively.

10 “FIDUCIARY RESPONSIBILITIES

11 “SEC. 263. (a) IN GENERAL.—Under regulations of  
12 the Secretary of Labor, the provisions of sections 8477  
13 and 8478 of title 5, United States Code, shall apply in  
14 connection with the Savings Fund and the individual so-  
15 cial security accounts maintained in such Fund in the  
16 same manner and to the same extent as such provisions  
17 apply in connection with the Thrift Savings Fund and ac-  
18 counts maintained in the Thrift Savings Fund.

19 “(b) INVESTIGATIVE AUTHORITY.—Any authority  
20 available to the Secretary of Labor under section 504 of  
21 the Employee Retirement Income Security Act of 1974 is  
22 hereby made available to the Secretary of Labor, and any  
23 officer designated by the Secretary of Labor, to determine  
24 whether any person has violated, or is about to violate,  
25 any provision applicable under subsection (a).

26 “(c) EXCULPATORY PROVISIONS; INSURANCE.—

1           “(1) IN GENERAL.—Any provision in an agree-  
2           ment or instrument which purports to relieve a fidu-  
3           ciary from responsibility or liability for any responsi-  
4           bility, obligation, or duty under this part shall be  
5           void.

6           “(2) INSURANCE.—Amounts in the Savings  
7           Fund available for administrative expenses shall be  
8           available and may be used at the discretion of the  
9           Board to purchase insurance to cover potential li-  
10          ability of persons who serve in a fiduciary capacity  
11          with respect to the Fund and individual social secu-  
12          rity accounts maintained therein, without regard to  
13          whether a policy of insurance permits recourse by  
14          the insurer against the fiduciary in the case of a  
15          breach of a fiduciary obligation.”.

16          (b) CONFORMING AMENDMENTS AND RULE OF CON-  
17          STRUCTION.—

18                 (1) CONFORMING AMENDMENTS.—

19                         (A) The Social Security Act is amended—

20                                 (i) in part A of title II (as redesign-  
21                                 ated by subsection (a)), by striking “this  
22                                 title” each place it appears and inserting  
23                                 “this part”;

24                                 (ii) by striking “title II” each place it  
25                                 appears (except in sections 1110(a)(3),

1           1129A(d)(2),     1136(g),     1147(a)(1),  
2           1148(h)(4)(A),   1148(j)(1)(A),   1148(k),  
3           1612(b)(8), and 1613(a)(10)) and insert-  
4           ing “part A of title II”;

5           (iii) by striking “title II or XVI” each  
6           place it appears in sections 1110(a)(3),  
7           1129A(d)(2), and 1136(g) and inserting  
8           “part A of title II or title XVI”; and

9           (iv) by striking “title II or VIII” in  
10          section 1147(a)(1) and inserting “part A  
11          of title II or title VIII”.

12          (B) The Internal Revenue Code of 1986 is  
13          amended by striking “title II” each place it ap-  
14          pears (except in sections 142(h)(1),  
15          410(b)(3)(B), 451(d), 912(1)(C), and 912(2))  
16          and inserting “part A of title II”.

17          (C) The Railroad Retirement Act of 1974  
18          is amended by striking “title II” each place it  
19          appears (except in sections 15(a) and 19(c)(3))  
20          and inserting “part A of title II”.

21          (2) RULE OF CONSTRUCTION.—In each provi-  
22          sion of Federal law (other than provisions amended  
23          or added by the amendments made by this Act), any  
24          reference to title II of the Social Security Act shall

1 be deemed a reference to part A of title II of such  
2 Act (as redesignated by subsection (a)).

3 **SEC. 4. CONFORMING ADJUSTMENTS TO MONTHLY INSUR-**  
4 **ANCE BENEFITS.**

5 (a) IN GENERAL.—Part A of title II of the Social  
6 Security Act (as amended by section 3 of this Act) is  
7 amended by adding after section 234 the following new  
8 section:

9 “PART B OFFSETS TO MONTHLY INSURANCE BENEFITS

10 “Benefit Reductions

11 “SEC. 235. (a) Notwithstanding the preceding provi-  
12 sions of this part, for purposes of determining any benefit  
13 under this part for any month based on the wages and  
14 self-employment income of an individual who is an eligible  
15 individual under part B, the Executive Director appointed  
16 under section 253 shall determine and certify to the Com-  
17 missioner of Social Security the total amount of monthly  
18 payments which would be payable for such month under  
19 part B, from amounts in the Social Security Savings Fund  
20 allocated to such individual’s individual social security ac-  
21 count, in the distribution of amounts not in excess of such  
22 individual’s distribution base, if the investment in stock  
23 of amounts allocated to such account had been invested  
24 solely under the Standard Option described in section  
25 258(e)(2) and solely in accordance with the Standard Mix  
26 under section 258(b). Such determination shall be made,

1 irrespective of the extent to which such amounts may have  
2 been invested under the Small Capitalization Option or  
3 Medium Capitalization Option described in section  
4 258(e)(2) or a variance from the Standard Mix may have  
5 been elected under section 258(e)(4). The Commissioner  
6 shall reduce such benefit by the amount of the applicable  
7 part B offset in connection with such individual applicable  
8 to such benefit.

9 “Applicable Part B Offset

10 “(b)(1) For purposes of subsection (a), the applicable  
11 part B offset is—

12 “(A) in the case of a benefit based on the wages  
13 and self-employment income of an individual born on  
14 or after January 1, 1981, the full part B offset in  
15 connection with such individual allocable to such  
16 benefit, determined under paragraph (2), or

17 “(B) in the case of a benefit based on the  
18 wages and self employment income of an individual  
19 born before January 1, 1981, the reduced part B  
20 offset in connection with such individual allocable to  
21 such benefit, determined under paragraph (3).

22 “(2) For purposes of paragraph (1)(A), the full part  
23 B offset in connection with an individual allocable to a  
24 monthly insurance benefit under this part is the portion  
25 of the total amount of monthly payments payable for such

1 month under part B in the distribution of amounts not  
2 in excess of such individual's distribution base which bears  
3 the same ratio to such total amount as the amount of such  
4 benefit bears to the total of benefits payable for such  
5 month under this part on the basis of such individual's  
6 wages and self-employment income.

7       “(3)(A) For purposes of paragraph (1)(B) the re-  
8 duced part B offset in connection with an individual allo-  
9 cable to a monthly insurance benefit under this part is  
10 the product derived by multiplying—

11               “(i) the portion of the total amount described  
12 in subsection (a) which would be payable for such  
13 month under part B in the distribution of amounts  
14 not in excess of such individual's distribution base  
15 which bears the same ratio to such total amount as  
16 the amount of such benefit bears to the total of ben-  
17 efits payable for such month under this part on the  
18 basis of such individual's wages and self-employment  
19 income, by

20               “(ii) the reduction factor determined under sub-  
21 paragraph (B) in connection with such individual.

22       “(B) The reduction factor determined under this sub-  
23 paragraph, in connection with any individual, is the excess  
24 of—

25               “(i) 1, over

1           “(ii) the product derived by multiplying—  
2                 “(I) 0.0033 $\frac{1}{3}$ , by  
3                 “(II) the number of calendar years during  
4           the period beginning with the calendar year in  
5           which such individual was born and ending with  
6           calendar year 1980.”.

7           (b) EFFECTIVE DATE.—The amendment made by  
8   this section shall apply with respect to benefits for months  
9   after November 2004.

10 **SEC. 5. MAINTENANCE OF ADEQUATE BALANCES IN THE**  
11 **SOCIAL SECURITY TRUST FUNDS.**

12           (a) IN GENERAL.—Section 201 of the Social Security  
13 Act (42 U.S.C. 401) is amended by adding at the end the  
14 following new subsection:

15           “(n) In addition to amounts otherwise appropriated  
16 under the preceding provisions of this section to the Trust  
17 Funds established under this section, there is hereby ap-  
18 propriated for each fiscal year to each of such Trust  
19 Funds, from amounts in the general fund of the Treasury  
20 not otherwise appropriated, such sums as may be nec-  
21 essary from time to time to maintain the balance ratio  
22 (as defined in section 709(b)) of such Trust Fund, for the  
23 calendar year commencing during such fiscal year, at not  
24 less than 100 percent. The sums to be appropriated under  
25 the preceding sentence shall be determined by the Com-

1 missioner of Social Security and certified by the Commis-  
 2 sioner to each House of the Congress not later than Octo-  
 3 ber 1 of such fiscal year. In making such determination  
 4 and certification, the Commissioner shall use the inter-  
 5 mediate actuarial assumptions used by the Board of  
 6 Trustees of the Trust Funds in its most recent annual  
 7 report to the Congress prepared pursuant to subsection  
 8 (c)(2). The Commissioner shall also transmit a copy of  
 9 any such certification to the Secretary of the Treasury,  
 10 and upon receipt thereof, such Secretary shall promptly  
 11 take appropriate actions in accordance with the certifi-  
 12 cation.”.

13 (b) EFFECTIVE DATE.—The amendment made by  
 14 subsection (a) shall apply with respect to fiscal years be-  
 15 ginning after the date of the enactment of this Act.

16 **SEC. 6. TAXATION OF INDIVIDUAL SOCIAL SECURITY AC-**  
 17 **COUNT PROGRAM.**

18 (a) IN GENERAL.—Subchapter F of chapter 1 of the  
 19 Internal Revenue Code of 1986 (relating to exempt organi-  
 20 zations) is amended by adding at the end the following  
 21 new part:

22 **“PART IX—INDIVIDUAL SOCIAL SECURITY**  
 23 **ACCOUNT PROGRAM**

“Sec. 531. Social Security Personal Savings Fund and individual  
 social security accounts.

1 **“SEC. 531. SOCIAL SECURITY PERSONAL SAVINGS FUND**  
2 **AND INDIVIDUAL SOCIAL SECURITY AC-**  
3 **COUNTS.**

4 “(a) EXEMPTION FROM TAX.—The Social Security  
5 Personal Savings Fund, and each individual social security  
6 account, is exempt from taxation under this subtitle. Not-  
7 withstanding the preceding sentence, such Fund and ac-  
8 counts are subject to the taxes imposed by section 511  
9 (relating to imposition of tax on unrelated business income  
10 of charitable, etc. organizations).

11 “(b) DISTRIBUTIONS FROM INDIVIDUAL SOCIAL SE-  
12 CURITY ACCOUNTS.—

13 “(1) DISTRIBUTIONS ON ACCOUNT OF  
14 DEATH.—Any distribution from an individual social  
15 security account on account of the death of the ac-  
16 count owner shall not be includible in gross income.

17 “(2) INCOME INCLUSION AS SOCIAL SECURITY  
18 BENEFITS.—

**“For treatment of certain distributions as social  
security benefits, see section 86.**

19 “(c) INDIVIDUAL SOCIAL SECURITY ACCOUNTS.—  
20 For purposes of this section, the term ‘individual social  
21 security account’ means an account established under sec-  
22 tion 256 of the Social Security Act.”.

23 (b) DISTRIBUTIONS TAXED AS SOCIAL SECURITY  
24 BENEFIT.—Paragraph (1) of section 86(d) of such Code

1 (defining social security benefit) is amended by striking  
2 “or” at the end of subparagraph (A), by redesignating  
3 subparagraph (B) as subparagraph (C), and by inserting  
4 after subparagraph (A) the following new subparagraph:

5           “(B) a distribution under section 260 of  
6           the Social Security Act, or”.

7           (c) CONFORMING AMENDMENT.—The table of parts  
8 for Subchapter F of chapter 1 of such Code is amended  
9 by adding at the end the following new item:

          “Part IX. Individual social security account program.”.

10          (d) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 2004.

13 **SEC. 7. REPORT ON PRIVATE SECTOR INVESTMENT AND**  
14 **MANAGEMENT.**

15          (a) STUDY.—As soon as practicable after the date of  
16 the enactment of this Act, the Social Security Advisory  
17 Board shall undertake a study of the manner and extent  
18 to which, upon attainment of balances in individual social  
19 security accounts sufficient to minimize the administrative  
20 costs involved, investment of amounts held in such ac-  
21 counts may be managed in the private sector by approved  
22 account managers. In carrying out the study, the Advisory  
23 Board shall consult with such public and private entities  
24 as it deems necessary and appropriate.

1 (b) REPORT.—Not later than 5 years after the date  
2 of the enactment of this Act, the Social Security Advisory  
3 Board shall report to each House of the Congress and to  
4 the President the results of the study required under sub-  
5 section (a). Such report shall include such recommenda-  
6 tions for administrative and legislative changes as the  
7 Board may consider appropriate.

8 **SEC. 8. MAINTENANCE OF CURRENT LEVELS OF FICA AND**  
9 **SECA TAXES.**

10 Nothing in this Act shall be construed to affect the  
11 levels of taxes under chapter 21 of the Internal Revenue  
12 Code of 1986 (the Federal Insurance Contributions Act)  
13 or chapter 2 of such Code (the Self-Employment Contribu-  
14 tions Act of 1954).

○