

105TH CONGRESS  
2D SESSION

# H. R. 3560

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

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## IN THE HOUSE OF REPRESENTATIVES

MARCH 26, 1998

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

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## A BILL

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

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

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

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

6 (b) TABLE OF CONTENTS.—

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

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

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

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

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

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

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

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

3 (C) avoid payroll tax increases, and

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

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

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

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

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

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

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

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



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

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

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

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

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

3 “COVERED EMPLOYEES AND COVERED SELF-EMPLOYED  
4 INDIVIDUALS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6       “PERIODIC REPORTS BY ACCOUNT TRUSTEE

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

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

19               “(1) The balance in the account.

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

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

25               “(4) The amount of distributions.

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

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

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

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

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

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

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

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

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

7 “AVAILABILITY OF FUNDS FOR DEPOSITS

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

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

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

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



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

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

6 “(4) BOARD OF TRUSTEES.—

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

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

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

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

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

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

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

16                  (2) NOTICE REQUIREMENTS.—

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

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

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

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

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

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

24                   (i) not having attained age 21, and

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

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

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

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

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

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

1 “Reduction in Appropriations to the Trust Funds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20 “(d) SPECIAL RULES.—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23          “(c) INVESTMENT REQUIREMENTS.—

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

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

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

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

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

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

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

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

24 “(d) DISTRIBUTION REQUIREMENTS.—

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

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

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

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

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

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

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

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

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

17 “(e) ACCOUNT EXEMPT FROM TAX.—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7 (d) TAX ON EXCESS CONTRIBUTIONS.—

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

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

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

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

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

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

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

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

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

9 (e) CONFORMING AMENDMENTS.—

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

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

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

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

3           (f) CLERICAL AMENDMENTS.—

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

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

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

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

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

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

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

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

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

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

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