

107TH CONGRESS
1ST SESSION

H. R. 3535

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.

IN THE HOUSE OF REPRESENTATIVES

DECEMBER 19, 2001

Mr. DEMINT (for himself and Mr. ARMEY) introduced the following bill; which was referred to the Committee on Ways and Means

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 Ownership and Guarantee Act of 2001”.

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

“Subpart 1—General Provisions

- “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 and supplemental contributions.
- “Sec. 258. Investments in common stock and Social Security Transition Bonds.
- “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. Guarantee of full social security benefits with accurate annual cost-of-living adjustment.

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. It was one of the most
10 successful government programs of the 20th Cen-
11 tury, and it must always honor its founding purpose

1 of protecting the elderly from poverty and bringing
2 dignity to retirement.

3 (2) Social Security provides essential income se-
4 curity through retirement, disability, and survivor
5 benefits for over 45,000,000 Americans of all ages,
6 without which nearly 50 percent of seniors would
7 live in poverty.

8 (3) Social Security is of particular importance
9 for low earners, especially widows and women caring
10 for children, without which nearly 53 percent of el-
11 derly women would live in poverty.

12 (4) Social Security is unsustainable in its
13 present form. The Board of Trustees for Social Se-
14 curity projects that the program's obligations will
15 exceed its annual tax revenue starting in 2016.
16 While the government will continue to pay full bene-
17 fits through 2038 using general tax revenues owed
18 to the Social Security trust funds, the long-term fi-
19 nancing problem for the government will begin in
20 2016.

21 (5) The primary reason for this financial short-
22 fall is demographic: the post-World War II baby
23 boomers will begin retiring in less than a decade,
24 and people are generally living longer lives. These
25 changes will drastically reduce the number of work-

1 ers supporting each retiree. In 1960 there were more
2 than five workers paying into Social Security for
3 every individual collecting benefits. Today, demo-
4 graphic changes have reduced the worker-to-bene-
5 ficiary ratio to 3.4 to 1. By 2050, it will be just 2
6 to 1.

7 (6) If reforms are not made, Social Security
8 payroll taxes will have to be raised by 50 percent to
9 balance the system over the next 75 years. When So-
10 cial Security was first started, its tax was never sup-
11 posed to go higher than 6 percent of workers' in-
12 come. Today, it is over 12 percent and if something
13 is not done, it will go to over 18 percent.

14 (7) If reforms are not made and taxes are not
15 increased, Social Security benefits will have to cut
16 by 33 percent to balance the system over the next
17 75 years.

18 (8) If reforms are not made, younger workers
19 will receive lower benefits for every dollar they pay.
20 The inflation-adjusted rate of return averaged more
21 than 25 percent annually for Social Security's first
22 retirees in the 1940s but are estimated to average
23 roughly 4 percent for today's retirees, roughly 2 per-
24 cent for "baby boomers," and 1 percent for those
25 who will be born 40 years from now. Since these fig-

1 ures do not include the extra cost of meeting Social
2 Security's needs from 2016 to 2038, real rates of re-
3 turn for younger workers will likely be even lower.

4 (9) The Social Security trust funds will not
5 solve the problem. The Social Security trust fund
6 balances are available to finance future benefit pay-
7 ments only in a bookkeeping sense. They do not con-
8 sist of real economic assets that can be drawn down
9 in the future to fund benefits. Instead, they are
10 claims on the general budget that, when redeemed,
11 will have to be financed by raising taxes, borrowing
12 from the public, or reducing benefits or other ex-
13 penditures. The existence of large Social Security
14 trust fund balances does not, by itself, have any im-
15 pact on the Government's ability to pay benefits.

16 (10) Faster economic growth will not solve the
17 problem. Under the faster-growth estimates of the
18 Social Security Board of Trustees, permanent cash-
19 flow deficits would be delayed by only one year, to
20 2017. Even if every economic and demographic vari-
21 able were changed to reduce costs, permanent defi-
22 cits would begin in 2020.

23 (11) Inasmuch as payroll taxes already con-
24 stitute the single largest tax burden for most Amer-
25 ican families, further tax increases would not result

1 in a sustainable program and would further burden
2 employers. This would especially affect small busi-
3 nesses and harm job creation. Americans already
4 pay far too much into Social Security for what they
5 receive.

6 (12) Changes to Social Security’s benefit struc-
7 ture to maintain solvency such as reductions in cost-
8 of-living adjustments (COLAs) would reduce benefits
9 for current retirees who depend most heavily upon
10 Social Security for their retirement income.

11 (13) Changes to Social Security’s benefit struc-
12 ture to maintain solvency such as increases in the
13 Social Security “normal retirement age” which is
14 currently increasing from age 65 to age 67 would
15 make Social Security a poorer deal for hard-working
16 Americans. Workers who are in more need of earlier
17 retirement, such as police officers, firefighters, and
18 manual laborers, would be especially harmed by in-
19 creases in the age of eligibility for Social Security
20 benefits.

21 (14) Changes to Social Security’s benefit struc-
22 ture to maintain solvency that negatively impact dis-
23 ability and survivors benefits would harm the most
24 vulnerable and disadvantaged Americans. Mod-

1 ernization must not reduce Social Security's dis-
2 ability and survivors benefits.

3 (15) Social Security is currently a government-
4 controlled, government-owned program that does not
5 save a penny for workers' retirement. Instead, it re-
6 quires each generation to support the generation
7 that came before it. With demographic changes, this
8 structure passes on higher taxes, fewer benefits, and
9 lower rates of return to younger Americans. In order
10 to save Social Security for tomorrow's retirees,
11 Americans must be able to save and invest more.

12 (16) Allowing the Federal Government to invest
13 workers' payroll taxes in private financial assets in-
14 vites political interference and conflicts of interest in
15 investment decisions, and will reduce economic effi-
16 ciency. Social Security was not designed to facilitate
17 saving, and the political process cannot be relied
18 upon to invest on behalf of American families.

19 (17) According to the United States Supreme
20 Court, Social Security does not currently offer
21 Americans any guarantee that they will receive their
22 benefits. Instead, Americans have only a promise
23 that Congress can change at any time, by any
24 amount, and for any reason.

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

7 (19) Personal retirement accounts would enable
8 workers to start saving real economic assets for the
9 first time, locking them away so they cannot be
10 spent on non-Social Security programs.

11 (20) Personal retirement accounts would gen-
12 erate higher returns on the taxes currently paid into
13 Social Security, drastically reducing the financial
14 shortfall in the system and paving the way for a
15 fully funded system that is permanently self-sus-
16 taining.

17 (21) Personal retirement accounts would trans-
18 form Social Security from an “IOU” into real assets
19 that individuals could own and pass along to their
20 children.

21 (22) Personal retirement accounts would cor-
22 rect Social Security’s inequities for the poor, minori-
23 ties, and women by offering them ownership, inde-
24 pendence, and access to wealth.

1 (b) STATEMENT OF PURPOSE.—The purpose of this
2 Act is to preserve and strengthen the Social Security pro-
3 gram through the creation of individual social security ac-
4 counts that will—

5 (1) ensure the payment of Social Security bene-
6 fits promised under current law or greater benefits
7 to all eligible workers and their families;

8 (2) empower Americans with ownership, inde-
9 pendence, and access to wealth in retirement with
10 personal account assets, which future Congresses
11 cannot redirect for any other purpose; and

12 (3) provide for the long-run solvency and sus-
13 tainability of the Social Security program.

14 **SEC. 3. INDIVIDUAL SOCIAL SECURITY ACCOUNT PROGRAM**
15 **AND INDIVIDUAL SOCIAL SECURITY AC-**
16 **COUNTS.**

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

19 (1) by inserting before section 201 the fol-
20 lowing:

21 “PART A—INSURANCE BENEFITS”;

22 and

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

1 “PART B—INDIVIDUAL SOCIAL SECURITY ACCOUNT
2 PROGRAM

3 “Subpart 1—General Provisions

4 “DEFINITIONS

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

6 “(1) ELIGIBLE INDIVIDUAL.—The term ‘eligible
7 individual’ means an individual who has filed an
8 election under section 255.

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

12 “(3) INDIVIDUAL SOCIAL SECURITY AC-
13 COUNT.—The term “individual social security ac-
14 count” means an account established under section
15 256.

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

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

22 “(6) SAVINGS FUND.—The term ‘Savings Fund’
23 means the Social Security Personal Savings Fund
24 established under section 252.

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

4 “(8) BOARD.—The term ‘Board’ means the
5 Personal Savings Board established under section
6 252.

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

10 “(10) ELIGIBILITY FOR MONTHLY INSURANCE
11 BENEFITS.—An individual shall be deemed ‘eligible’
12 for a benefit under section 202 for a month if, upon
13 filing application therefor in such month, such indi-
14 vidual would be entitled to such benefit for such
15 month.

16 “PERSONAL SAVINGS BOARD

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

20 “(b) COMPOSITION.—The Board shall be composed
21 of—

22 “(1) 3 members appointed by the President, of
23 whom 1 shall be designated by the President as
24 Chairman; and

25 “(2) 2 members appointed by the President, of
26 whom—

1 “(A) 1 shall be appointed by the President
2 after taking into consideration the recommenda-
3 tion made by the Speaker of the House of Rep-
4 resentatives in consultation with the Minority
5 Leader of the House of Representatives; and

6 “(B) 1 shall be appointed by the President
7 after taking into consideration the recommenda-
8 tion made by the Majority Leader of the Senate
9 in consultation with the Minority Leader of the
10 Senate.

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

14 “(d) MEMBERSHIP REQUIREMENTS.—Members of
15 the Board shall have substantial experience, training, and
16 expertise in the management of financial investments and
17 pension benefit plans.

18 “(e) LENGTH OF APPOINTMENTS.—

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

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

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

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

6 “(2) VACANCIES.—

7 “(A) IN GENERAL.—A vacancy on the
8 Board shall be filled in the manner in which the
9 original appointment was made and shall be
10 subject to any conditions that applied with re-
11 spect to the original appointment.

12 “(B) COMPLETION OF TERM.—An indi-
13 vidual chosen to fill a vacancy shall be ap-
14 pointed for the unexpired term of the member
15 replaced.

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

19 “(f) DUTIES.—The Board shall—

20 “(1) administer the program established under
21 this part;

22 “(2) establish policies for the investment and
23 management of the Savings Fund, including policies
24 applicable to the outside entities and qualified pro-
25 fessional asset managers with responsibility for man-

1 aging the investment of account balances under sec-
2 tion 258, that shall provide for—

3 “(A) prudent investments suitable for ac-
4 cumulating funds for payment of retirement in-
5 come; and

6 “(B) low administrative costs.

7 “(3) review the performance of investments
8 made for the Savings Fund;

9 “(4) review and approve the budget of the
10 Board; and

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

12 “(g) ADMINISTRATIVE PROVISIONS.—

13 “(1) IN GENERAL.—The Board may—

14 “(A) adopt, alter, and use a seal;

15 “(B) except as provided in paragraph (2),
16 direct the Executive Director to take such ac-
17 tion as the Board considers appropriate to
18 carry out the provisions of this part and the
19 policies of the Board;

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

23 “(D) provide to the Executive Director
24 such resources as are necessary to carry out the
25 requirements of section 253; and

1 “(E) take such other actions as may be
2 necessary to carry out the functions of the
3 Board.

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

5 “(A) not less than once during each
6 month; and

7 “(B) at additional times at the call of the
8 Chairman.

9 “(3) EXERCISE OF POWERS.—

10 “(A) IN GENERAL.—Except as provided in
11 paragraph (1)(C) and section 253(a)(1), the
12 Board shall perform the functions and exercise
13 the powers of the Board on a majority vote of
14 a quorum of the Board. Three members of the
15 Board shall constitute a quorum for the trans-
16 action of business.

17 “(B) VACANCIES.—A vacancy on the
18 Board shall not impair the authority of a
19 quorum of the Board to perform the functions
20 and exercise the powers of the Board.

21 “(4) LIMITATION ON INVESTMENTS.—Except in
22 the case of investments required by section 258 to
23 be invested in special Trust Fund obligations, the
24 Board may not direct the Executive Director or any
25 account trustee to invest or to cause to be invested

1 any sums in the Savings Fund in a specific asset
2 or to dispose of or cause to be disposed of any spe-
3 cific asset of the Savings Fund.

4 “(h) COMPENSATION.—

5 “(1) IN GENERAL.—Each member of the Board
6 who is not an officer or employee of the Federal
7 Government shall be compensated at the daily rate
8 of basic pay for level IV of the Executive Schedule
9 for each day during which such member is engaged
10 in performing a function of the Board.

11 “(2) EXPENSES.—A member of the Board shall
12 be paid travel, per diem, and other necessary ex-
13 penses under subchapter I of chapter 57 of title 5,
14 United States Code, while traveling away from such
15 member’s home or regular place of business in the
16 performance of the duties of the Board.

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

20 “(i) DISCHARGE OF RESPONSIBILITIES.—The mem-
21 bers of the Board shall discharge their responsibilities
22 solely in the interest of account owners and beneficiaries
23 under this part.

1 pertise in the management of financial investments
2 and pension benefit plans.

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

4 “(1) carry out the policies established by the
5 Board;

6 “(2) invest and manage the Savings Fund in
7 accordance with the investment policies and other
8 policies established by the Board;

9 “(3) provide for the distribution of individual
10 social security account balances in accordance with
11 this part (including the purchase of annuity con-
12 tracts with assets of the Savings Fund to the extent
13 provided under section 260(b)(5));

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

16 “(5) prescribe such regulations (other than reg-
17 ulations relating to fiduciary responsibilities) as may
18 be necessary for the administration of this part re-
19 lating to the Savings Fund.

20 “(c) ADMINISTRATIVE AUTHORITY.—The Executive
21 Director may—

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

1 “(2) subject to approval by the Board, procure
2 the services of experts and consultants under section
3 3109 of title 5, United States Code;

4 “(3) secure directly from an Executive agency,
5 the United States Postal Service, or the Postal Rate
6 Commission any information necessary to carry out
7 the provisions of this part and the policies of the
8 Board relating to the Savings Fund;

9 “(4) make such payments out of sums in the
10 Savings Fund as the Executive Director determines
11 are necessary to carry out the provisions of this part
12 and the policies of the Board;

13 “(5) pay the compensation, per diem, and travel
14 expenses of individuals appointed under paragraphs
15 (1), (2), and (6) from the Savings Fund;

16 “(6) accept and use the services of individuals
17 employed intermittently in the Government service
18 and reimburse such individuals for travel expenses,
19 authorized by section 5703 of title 5, United States
20 Code, including per diem as authorized by section
21 5702 of such title;

22 “(7) except as otherwise expressly prohibited by
23 law or the policies of the Board, delegate any of the
24 Executive Director’s functions to such employees
25 under the Board as the Executive Director may des-

1 ignate and authorize such successive redelegations of
2 such functions to such employees under the Board
3 as the Executive Director may consider to be nec-
4 essary or appropriate; and

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

7 “SOCIAL SECURITY PERSONAL SAVINGS FUND

8 “SEC. 254. (a) ESTABLISHMENT OF SAVINGS
9 FUND.—There is established in the Treasury of the
10 United States a Social Security Personal Savings Fund,
11 consisting of all amounts transferred to or deposited in
12 the Savings Fund in accordance with section 257, in-
13 creased by the total net earnings from investments of
14 sums in the Savings Fund or reduced by the total net
15 losses from investments of the Savings Fund, and reduced
16 by the total amount of payments made from the Savings
17 Fund (including payments for administrative expenses).

18 “(b) AVAILABILITY.—The sums in the Savings Fund
19 are appropriated and shall remain available without fiscal
20 year limitation—

21 “(1) to invest under section 258;

22 “(2) to make distributions in accordance with
23 sections 260 and 261;

24 “(3) to pay the administrative expenses of the
25 Board; and

1 “(4) to purchase insurance as provided in sec-
2 tion 263(c).

3 “(c) LIMITATIONS ON USE OF FUNDS.—

4 “(1) IN GENERAL.—Sums in the Savings Fund
5 credited to an individual social security account in
6 the Savings Fund may not be used for, or diverted
7 to, purposes other than for the exclusive benefit of
8 the account owner or the account owner’s bene-
9 ficiaries under this part.

10 “(2) ASSIGNMENTS.—Except as provided in
11 paragraph (3), sums in the Savings Fund may not
12 be assigned or alienated and are not subject to exe-
13 cution, levy, attachment, garnishment, or other legal
14 process.

15 “(3) SUPPORT OBLIGATIONS.—Moneys due or
16 payable from the Savings Fund to any account
17 owner shall be subject to legal process for the en-
18 forcement of the account owner’s legal obligations to
19 provide child support or make alimony payments as
20 provided in section 459 or for the enforcement of a
21 court order or other similar process in the nature of
22 a garnishment for the enforcement of a judgment
23 rendered against the account owner for physically,
24 sexually, or emotionally abusing a child.

1 “(d) PAYMENT OF ADMINISTRATIVE EXPENSES.—
2 Administrative expenses incurred to carry out this part
3 shall be paid out of net earnings in the Savings Fund in
4 conjunction with the allocation of investment earnings and
5 losses under section 256(c).

6 “(e) LIMITATION.—The sums in the Savings Fund
7 shall not be appropriated for any purpose other than the
8 purposes specified in this section and may not be used for
9 any other purpose.

10 “ELIGIBLE INDIVIDUALS

11 “Sec. 255. (a) ELECTION OF STATUS AS ELIGIBLE
12 INDIVIDUAL.—Any individual who—

13 “(1) was born on or after January 1, 1948,

14 “(2) has attained age 18, and

15 “(3) has been assigned a social security account
16 number under section 205(c),

17 may elect to be an eligible individual under this part upon
18 filing an election under this section.

19 “(b) REQUIREMENTS.—An election by an individual
20 under this subsection is an election, filed with the Com-
21 missioner, in such form and manner as shall be prescribed
22 in regulations of the Commissioner, consisting of a written
23 and signed declaration of such individual’s intention to be-
24 come an eligible individual under this part. Such regula-
25 tions shall provide for regular, periodic opportunities for
26 the filing of such an election. The Commissioner shall pro-

1 vide for immediate notification to the Board and the Exec-
2 utive Director of such election.

3 “(c) IRREVOCABILITY.—An election under this sec-
4 tion shall be irrevocable and shall be effective with respect
5 to wages earned, and self-employment income derived, on
6 or after January 1 following the date of such filing of the
7 election.

8 “INDIVIDUAL SOCIAL SECURITY ACCOUNTS

9 “SEC. 256. (a) ESTABLISHMENT OF INDIVIDUAL SO-
10 CIAL SECURITY ACCOUNTS.—As soon as practicable after
11 the date on which an individual becomes an eligible indi-
12 vidual under this part, the Executive Director shall estab-
13 lish in the Savings Fund an individual social security ac-
14 count for such individual. Each account shall be identified
15 to its account owner by means of the account owner’s so-
16 cial security account number. The Savings Fund shall ac-
17 cept any prescribed social security deposit or supplemental
18 contribution made with respect to any eligible individual
19 as provided in section 257. The Executive Director shall
20 credit such deposit or contribution to such individual’s in-
21 dividual social security account.

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

24 “(1) the sum of—

1 “(A) all deposits and contributions de-
2 scribed in subsection (a) credited to such ac-
3 count, and

4 “(B) the total amount of allocations made
5 to and reductions made in the account pursuant
6 to subsection (d),

7 over

8 “(2) the amounts which have been credited to
9 such account and which are paid out of the Savings
10 Fund with respect to such account owner under this
11 part.

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

22 “PRESCRIBED SOCIAL SECURITY DEPOSITS AND
23 SUPPLEMENTAL CONTRIBUTIONS

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 in money market secu-
21 rities 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 money
11 market securities, pursuant to subsection (a), of
12 amounts equivalent to the product determined under
13 paragraph (1) during the period such amounts were
14 held in the Savings Fund prior to deposit in such in-
15 dividual’s individual social security account.

16 “(c) TRANSFER PERCENTAGE.—For purposes of sub-
17 section (b)(2), the term ‘transfer percentage’ of an indi-
18 vidual 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 such calendar year (as certified to the Sec-
2 retary of the Treasury by the Commis-
3 sioner of Social Security) not in excess of
4 the contribution and benefit base (deter-
5 mined under section 230) for such cal-
6 endar year, and

7 “(ii) the denominator of which is the
8 contribution and benefit base (so deter-
9 mined) for such calendar year,
10 rounded, if not a multiple of 0.01 percent, to the
11 nearest multiple of 0.01 percent.

12 “(d) SUPPLEMENTAL CONTRIBUTIONS.—Any person
13 may make supplemental contributions with respect to any
14 eligible individual in any amount at any time to the Sav-
15 ings Fund (for crediting by the Executive Director to the
16 eligible individual’s individual social security account).
17 Such contributions shall be made, and shall be separately
18 accounted for, in such form and manner as shall be pre-
19 scribed in regulations of the Board.

20 “INVESTMENTS IN COMMON STOCK AND SOCIAL
21 SECURITY TRANSITION BONDS

22 “SEC. 258. (a) IN GENERAL.—Any balance held in
23 an individual social security account under this part and
24 the balance of any other amounts held by the Savings
25 Fund which are not necessary for immediate withdrawal
26 shall be invested as provided in this section.

1 “(b) INVESTMENT UNDER 60/40 SPLIT.—The Exec-
2 utive Director shall invest each balance referred to in sub-
3 section (a) under regulations which shall be prescribed by
4 the Board so as to ensure, to the maximum extent prac-
5 ticable, that, of the total balance available for investment
6 (after allowing for administrative expenses)—

7 “(1) 60 percent is invested in common stock in
8 accordance with subsection (c), and

9 “(2) the remainder is invested in Social Secu-
10 rity Transition Bonds in accordance with subsection
11 (d).

12 “(c) INVESTMENT IN COMMON STOCK.—

13 “(1) IN GENERAL.—The Board shall establish
14 by regulation standards which must be met by com-
15 mon stock selected for investment of the portion of
16 any balance required to be invested in common stock
17 under subsection (b). In conformity with such stand-
18 ards, the Board shall select, for purposes of such in-
19 vestment, alternative indices which are comprised of
20 common stock the aggregate market value of which
21 is, in each case, a reasonably broad representation of
22 publicly held companies whose shares are traded on
23 the equity markets.

24 “(2) SELECTION OF APPLICABLE INDEX BY AC-
25 COUNT OWNER.—

1 “(A) PUBLICATION OF ALTERNATIVE INDI-
2 CES.—The Board shall publish, prior to the
3 third quarter of each calendar year, the Board’s
4 determination of the relative breadth of diver-
5 sification represented by each index selected by
6 the Board pursuant to paragraph (1).

7 “(B) OPPORTUNITY FOR ANNUAL ELEC-
8 TION BY ACCOUNT OWNER OF APPLICABLE
9 INDEX.—The Board shall provide by regulation
10 for an annual opportunity, during such calendar
11 quarter, for each account owner to elect, in con-
12 nection with the account owner’s individual so-
13 cial security account, one of such indices as the
14 applicable index for the following calendar year.
15 Amounts in the account invested in common
16 stock shall be held in a portfolio designed to
17 replicate the performance of such index.

18 “(C) DEFAULT INDEX.—The Board shall
19 clearly identify, in each publication of available
20 indices issued pursuant to subparagraph (A),
21 one of such indices as the index expected to
22 represent the best opportunity for broad diver-
23 sification of investment for the following year.
24 In any case in which an account holder fails to
25 make an election for a calendar year, the index

1 so identified by the Board shall serve as the
2 index for such calendar year in connection with
3 the account owner’s individual social security
4 account.

5 “(d) INVESTMENT IN SOCIAL SECURITY TRANSITION
6 BONDS.—

7 “(1) PURCHASE BY THE BOARD OF SOCIAL SE-
8 CURITY TRANSITION BONDS.—To the extent nec-
9 essary to provide for investment of the portion of
10 any balance required to be invested in United States
11 Government obligations under subsection (b), the
12 Executive Director shall purchase Social Security
13 Transition Bonds made available by the Managing
14 Trustee of the Federal Old-Age and Survivors Insur-
15 ance Trust Fund for purchase pursuant to para-
16 graph (2) .

17 “(2) ISSUANCE OF BONDS.—To the extent nec-
18 essary to allow for investment in accordance with
19 paragraph (1), the Managing Trustee shall issue
20 special obligations of such Trust Fund (to be known
21 as ‘Social Security Transition Bonds’) for purchase
22 by the Executive Director under paragraph (1), in
23 such forms and denominations, bearing such matu-
24 rities, and subject to such terms and conditions as
25 may be prescribed by the Managing Trustee.

1 “(e) LIMITATION ON VOTING RIGHTS.—The Board,
2 the Executive Director, and any account owner may not
3 exercise voting rights associated with the ownership of se-
4 curities held in the Savings Fund.

5 “ACCOUNTING AND INFORMATION

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

7 “(1) INDEPENDENT ACCOUNTANT.—The Exec-
8 utive Director shall annually engage, on behalf of all
9 account owners under this part, an independent
10 qualified public accountant, who shall conduct an ex-
11 amination of all accounts and other books and
12 records maintained by the Executive Director under
13 this part as the public accountant considers nec-
14 essary to enable the public accountant to make the
15 determination required by paragraph (2). The exam-
16 ination shall be conducted in accordance with gen-
17 erally accepted auditing standards and shall involve
18 such tests of the accounts, books, and records as the
19 public accountant considers necessary.

20 “(2) DETERMINATION REQUIRED.—The public
21 accountant conducting an examination under para-
22 graph (1) shall determine whether the accounts,
23 books, and records referred to in such paragraph
24 have been maintained in conformity with generally
25 accepted accounting principles applied on a basis
26 consistent with the manner in which such principles

1 were applied during the examination conducted
2 under such paragraph during the preceding year.
3 The public accountant shall transmit to the Board
4 a report on his examination, including his deter-
5 mination under this paragraph.

6 “(3) RELIANCE ON ACTUARIAL MATTER.—In
7 making a determination under paragraph (2), a pub-
8 lic accountant may rely on the correctness of any ac-
9 tuarial matter certified by an enrolled actuary if the
10 public accountant states his reliance in the report
11 transmitted to the Board under such paragraph.

12 “(4) DEFINITION.—In this subsection, the term
13 ‘qualified public accountant’ shall have the same
14 meaning as provided in section 103(a)(3)(D) of the
15 Employee Retirement Income Security Act of 1974
16 (29 U.S.C. 1023(a)(3)(D)).

17 “(b) STATEMENTS.—

18 “(1) IN GENERAL.—The Board shall prescribe
19 regulations under which each account owner under
20 this part shall be furnished by the Executive Direc-
21 tor with a periodic statement relating to the account
22 owner’s account, setting forth—

23 “(A) the current account balance,

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

1 “(C) an evaluation of the performance of
2 such investments over the 5-year period pre-
3 ceding the date as of which such evaluation is
4 made.

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

7 “ACCOUNT DISTRIBUTIONS

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

9 “(1) AVAILABILITY OF WITHDRAWALS.—On
10 and after the date on which an account owner be-
11 comes entitled to old-age insurance benefits under
12 section 202(a), the entire balance in the account
13 owner’s individual social security account shall be
14 available for withdrawal in a distribution meeting
15 the requirements of this section.

16 “(2) DISTRIBUTION OF BALANCES IN EXCESS
17 OF THE DISTRIBUTION BASE.—Any amount with-
18 drawn by the account owner pursuant to paragraph
19 (1) which is in excess of the distribution base shall
20 be payable to the account owner in such manner and
21 in such amounts as may be determined by the ac-
22 count owner (in such form and manner as shall be
23 prescribed in regulations of the Board to provide for
24 efficient and effective payment).

25 “(3) DISTRIBUTION OF BALANCES REP-
26 RESENTING THE DISTRIBUTION BASE.—On and

1 after the first date as of which an account owner be-
2 comes entitled to old-age insurance benefits under
3 section 202(a) and has requested commencement of
4 distribution of the account owner's distribution base,
5 the Executive Director shall provide for withdrawal
6 of the portion of the account balance which is not
7 in excess of the distribution base of the account
8 owner in accordance with subsections (b) through
9 (e).

10 “(b) DISTRIBUTION OF AMOUNTS IN DISTRIBUTION
11 BASE IN MONTHLY ANNUITY PAYMENTS.—

12 “(1) IN GENERAL.—Except as otherwise pro-
13 vided in this section, effective upon the date referred
14 to in subsection (a)(3), the Executive Director shall
15 transfer so much of the account balance as is not in
16 excess of the distribution base of the account owner
17 from the account owner's account to amounts other-
18 wise held in the Savings Fund. In exchange for the
19 amounts transferred, the Executive Director shall
20 provide, payable from the Saving Fund—

21 “(A) if the covered individual is not mar-
22 ried on such date, an immediate single life an-
23 nuity for the account owner, payable in monthly
24 installments, or

1 “(B) if the account owner is married on
2 such date, an immediate annuity for the joint
3 lives of the covered individual and the covered
4 individual’s spouse, payable in monthly install-
5 ments, together with a survivor annuity to the
6 one of them who survives the other of them for
7 the life of the survivor payable in monthly in-
8 stallments equal to $66\frac{2}{3}$ percent of the monthly
9 payment of the annuity that would be payable
10 if both spouses remained alive.

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

15 “(2) COST OF LIVING ADJUSTMENTS.—Any an-
16 nuity provided for under this subsection shall pro-
17 vide for annual indexing of the monthly payments
18 according to the Consumer Price Index for All
19 Urban Consumers (United States city average), pub-
20 lished by the Bureau of Labor Statistics.

21 “(3) OPTIONAL CASH DISTRIBUTION.—

22 “(A) IN GENERAL.—Effective on the date
23 referred to in subsection (a)(3), in lieu of a dis-
24 tribution of the account balance as described in
25 the preceding provisions of this subsection, the

1 account owner may elect, in such form and
2 manner as shall be prescribed by the Executive
3 Director—

4 “(i) an annuity determined under this
5 subsection by substituting in paragraph (1)
6 for references to the distribution base ref-
7 erences to the reduced distribution base
8 described in subparagraph (B), and

9 “(ii) a distribution from the account
10 in cash equal to the excess of the balance
11 in the account over such reduced distribu-
12 tion base.

13 “(B) REDUCTION IN AMOUNT AVAILABLE
14 FOR ANNUITY FORM OF DISTRIBUTION.—For
15 purposes of subparagraph (A), the amount of
16 the reduced distribution base is an amount
17 equal to the greater of—

18 “(i) 40 percent of the balance in the
19 account, or

20 “(ii) an amount necessary (as deter-
21 mined by the Executive Director) to fund
22 an annuity providing annual payments in
23 the amount of—

24 “(I) \$8,590, in any case in which
25 no individual other than the account

1 owner is eligible for benefits under
2 section 202 based on the wages and
3 self-employment income of the ac-
4 count owner, or

5 “(II) \$11,610, in any other case.

6 “(C) COST-OF-LIVING ADJUSTMENT.—The
7 Secretary shall adjust, for 2003 and for each
8 calendar year thereafter, each dollar amount
9 specified in subparagraph (B)(ii) for increases
10 in the cost-of-living in accordance with regula-
11 tions prescribed by the Secretary. Such regula-
12 tions shall provide for an adjustment with re-
13 spect to each calendar year based on the in-
14 crease in the Consumer Price Index for All
15 Urban Consumers (United States city average),
16 published by the Bureau of Labor Statistics, for
17 the calendar quarter ending September 30 of
18 the preceding calendar year over such index for
19 the calendar quarter ending September 30,
20 2000. Any increase under this clause which is
21 not a multiple of \$10 shall be rounded to the
22 next higher multiple of \$10 where such product
23 is a multiple of \$5 but not of \$10 and to the
24 nearest multiple of \$10 in any other case.

1 “(D) INVESTMENT OF 40 PERCENT
2 AMOUNT IN BONDS.—In the case of a cash dis-
3 tribution under this paragraph, the investment
4 of a portion of the account balance equivalent
5 to the 40 percent amount determined under
6 subparagraph (B)(i) shall remain invested solely
7 in the form described in section 258(d).

8 “(4) PURCHASE OF ANNUITIES.—The Executive
9 Director shall, on an ongoing basis, survey the avail-
10 ability for purchase in the private sector of annuity
11 contracts which would effectively assist in the dis-
12 tribution of individual social security accounts under
13 this subsection. If the Executive Director determines
14 that the return on investment of funds held in the
15 private sector for the purpose of funding such annu-
16 ity contracts would be (taking into account applica-
17 ble administrative expenses) at least equivalent to
18 the rate of return on funds held in the Savings
19 Fund pending distribution as described in paragraph
20 (1), the Executive Director shall provide by regula-
21 tion for the purchase of such annuity contracts as
22 a means of providing for payment of the monthly
23 payment amounts otherwise prescribed under para-
24 graph (2). Any such annuity contract shall provide

1 for investment of amounts held to fund the annuity
2 in the manner prescribed in section 258(b)(1).

3 “(c) DISTRIBUTION BASE.—For purposes of this sec-
4 tion, the distribution base of an account owner is the actu-
5 arial present value of the expected future benefits payable
6 under section 202 on the basis of the wages and self-em-
7 ployment income of the account owner (determined with-
8 out regard to section 215(a)(8)). The actuarial present
9 value determined under this subsection shall be deter-
10 mined as of the date described in subsection (a)(3). In
11 making assumptions under this subsection, the Executive
12 Director shall take into account the reasonably anticipated
13 period for which each beneficiary will remain eligible for
14 benefits under section 202 based on the account owner’s
15 wages and self-employment income and the current ex-
16 pected life expectancy of such beneficiary.

17 “(d) TREATMENT OF DIVORCE, ANNULMENT, AND
18 LEGAL SEPARATION.—

19 “(1) REALLOCATION OF ACCOUNT BALANCES
20 ATTRIBUTABLE TO PRESCRIBED SOCIAL SECURITY
21 DEPOSITS.—

22 “(A) IN GENERAL.—Upon the issuance of
23 a court decree of divorce or annulment in the
24 case of an account owner and the account own-
25 er’s spouse before the date of the commence-

1 ment of any distribution from the account own-
2 er's individual social security account under
3 subsections (a) and (b), 50 percent of the
4 amount in such account which is attributable to
5 prescribed social security deposits under section
6 257(b) for calendar years ending during the pe-
7 riod of marriage (and earnings thereon) shall be
8 transferred from such account to the individual
9 social security account of such spouse. In any
10 case in which the spouse is not an eligible indi-
11 vidual, such spouse shall be deemed an eligible
12 individual upon the date of the decree, and the
13 transfer provided for under this paragraph shall
14 be made upon the establishment of the spouse's
15 individual social security account. This para-
16 graph shall apply in connection with such a de-
17 cree only if notice of such decree was received
18 by the Executive Director before the date of the
19 commencement of the distribution.

20 “(B) REVOCATION OF STATUS BY
21 SPOUSE.—A spouse who is deemed an eligible
22 individual under subparagraph (A) may, during
23 the 540-day period beginning on the date of the
24 decree of divorce or annulment, revoke his or
25 her status as an eligible individual in a form

1 and manner which shall be prescribed in regula-
2 tions of the Board. Upon such a revocation, the
3 spouse's individual social security account shall
4 be closed and any amounts theretofore depos-
5 ited in the account shall be transferred to the
6 Federal Old-Age and Survivors Insurance Trust
7 Fund.

8 “(2) TREATMENT OF ACCOUNT BALANCES AT-
9 TRIBUTABLE TO SUPPLEMENTAL CONTRIBUTIONS
10 AND OF ANNUITY PAYMENTS.—

11 “(A) IN GENERAL.—Subsections (a) and
12 (b) shall be subject to the terms of any court
13 decree, order, or agreement described in sub-
14 paragraph (B).

15 “(B) COURT DECREE, ORDER, OR AGREE-
16 MENT DESCRIBED.—A court decree, order, or
17 agreement described in this clause is, with re-
18 spect to an account owner, a court decree of di-
19 vorce, annulment, or legal separation issued in
20 the case of such account owner and such ac-
21 count owner's spouse or any court order or
22 court-approved property settlement agreement
23 incident to such decree if—

24 “(i) the decree, order, or agreement
25 expressly relates to any portion of the bal-

1 ance in the account owner’s account which
2 is not described in paragraph (1) or any
3 annuity under subsection (b)(2), and

4 “(ii) notice of the decree, order, or
5 agreement has been received by the Execu-
6 tive Director and, with respect to any an-
7 nuity payment, such notice was received
8 before the date on which payment is made.

9 “(3) 2 OR MORE CASES.—The Board shall
10 prescribe regulations under which this sub-
11 section shall be applied in any case in which the
12 Executive Director receives notice of 2 or more
13 decrees, orders, or agreements referred to in
14 paragraph (1) or (2).

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

22 “PAYMENTS UPON DEATH OF ACCOUNT OWNER

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

25 “(1) IN GENERAL.—Except as otherwise pro-
26 vided in this section, upon the account owner’s death

1 prior to the date described in section 260(a)(3), the
2 account shall be payable in equal monthly install-
3 ments (subject to paragraph (3)) to each individual
4 (if any) who is a potential beneficiary under section
5 202 based on the wages and self-employment income
6 of the account owner.

7 “(2) DETERMINATION OF MONTHLY PAYMENT
8 AMOUNTS.—

9 “(A) IN GENERAL.—The amounts payable
10 to each individual under paragraph (1) in con-
11 nection with an individual social security ac-
12 count shall be determined so that the actuarial
13 present value (as of the date referred to in sub-
14 section (a)(3)) of the future payments to each
15 individual bears the same ratio to the actuarial
16 present value (as of such date) of the total
17 amount to be so payable to all individuals in
18 connection with such account as the actuarial
19 present value (as of such date) of the benefits
20 for which such individual is (or will be) eligible
21 based on such wages and self-employment in-
22 come (determined without regard to section
23 215(a)(8)) bears to the account owner’s dis-
24 tribution base (determined as if the date of the
25 account owner’s death were a date described in

1 section 260(a)(3) and without any applicable
2 reduction under section 260(b)(4)).

3 “(B) ASSUMPTIONS.—In determining the
4 monthly amount to be payable to each indi-
5 vidual, the Executive Director shall take into
6 account the reasonably anticipated period for
7 which such individual will remain eligible for
8 benefits under section 202 based on the account
9 owner’s wages and self-employment income and
10 the current expected life expectancy of such in-
11 dividual.

12 “(b) TREATMENT OF SURVIVING SPOUSES ELIGIBLE
13 FOR WIDOW’S OR WIDOWER’S INSURANCE BENEFITS.—

14 “(1) IN GENERAL.—In any case in which the
15 account owner is survived by a spouse who is an eli-
16 gible individual and who is also eligible for widow’s
17 or widower’s insurance benefits under subsection (e)
18 or (f) of section 202 based on the account owner’s
19 wages and self-employment income, subsection (a)
20 shall not apply, and the account balance remaining
21 at the time of the account owner’s death shall be
22 transferred to the individual social security account
23 of such surviving spouse.

24 “(2) SPOUSES WHO ARE NOT ELIGIBLE INDI-
25 VIDUALS.—

1 “(A) IN GENERAL.—In any case in which
2 the surviving spouse is eligible for widow’s or
3 widower’s insurance benefits under subsection
4 (e) or (f) of section 202 based on the account
5 owner’s wages and self-employment income but
6 is not an eligible individual, such spouse shall
7 be deemed an eligible individual upon the date
8 of the account owner’s death, and the transfer
9 provided for under this subsection shall be
10 made upon the establishment of the spouse’s in-
11 dividual social security account.

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

24 “(c) TREATMENT OF ACCOUNT BALANCE IN THE AB-
25 SENCE OF SURVIVING POTENTIAL BENEFICIARIES.—In

1 any case in which, upon the account holder's death, no
2 distribution from the account holder's individual social se-
3 curity account is provided for under subsection (a) or (b),
4 the balance in the account shall be distributed to the es-
5 tate of the account owner.

6 “(d) BAR ON OTHER RECOVERIES.—A payment
7 made in accordance with subsection (a) shall bar any other
8 recovery by the individual receiving the payment and any
9 other individual.

10 “TREATMENT OF ACCOUNT BALANCES AND ANNUITIES

11 “SEC. 262. For purposes of this part, amounts held
12 in individual social security accounts and annuities pay-
13 able under section 261 shall be treated as the personal
14 property of the account owners and annuitants, respec-
15 tively, and shall be held in trust by the Board for the ac-
16 count owners and annuitants, respectively.

17 “FIDUCIARY RESPONSIBILITIES

18 “SEC. 263. (a) IN GENERAL.—Under regulations of
19 the Secretary of Labor, the provisions of sections 8477
20 and 8478 of title 5, United States Code, shall apply in
21 connection with the Savings Fund and the individual so-
22 cial security accounts maintained in such Fund in the
23 same manner and to the same extent as such provisions
24 apply in connection with the Thrift Savings Fund and ac-
25 counts maintained in the Thrift Savings Fund.

1 “(b) INVESTIGATIVE AUTHORITY.—Any authority
2 available to the Secretary of Labor under section 504 of
3 the Employee Retirement Income Security Act of 1974 is
4 hereby made available to the Secretary of Labor, and any
5 officer designated by the Secretary of Labor, to determine
6 whether any person has violated, or is about to violate,
7 any provision applicable under subsection (a).

8 “(c) EXCULPATORY PROVISIONS; INSURANCE.—

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

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

24 (b) CONFORMING AMENDMENTS AND RULE OF CON-
25 STRUCTION.—

1 (1) CONFORMING AMENDMENTS.—

2 (A) The Social Security Act is amended—

3 (i) in part A of title II (as redesignated by subsection (a)), by striking “this title” each place it appears and inserting “this part”;

7 (ii) by striking “title II” each place it appears (except in sections 1110(a)(3), 1129A(d)(2), 1136(g), 1147(a)(1), 1148(h)(4)(A), 1148(j)(1)(A), 1148(k), 1612(b)(8), and 1613(a)(10)) and inserting “part A of title II”;

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

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

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

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

5 (2) RULE OF CONSTRUCTION.—In each provi-
 6 sion of Federal Law (other than provisions added by
 7 the amendments made by this Act), any reference to
 8 title II of the Social Security shall be deemed a ref-
 9 erence to part A of title II of such Act (as redesi-
 10 gnated by subsection (a)).

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

13 (a) IN GENERAL.—Part A of title II of the Social
 14 Security Act (as amended by section 3 of this Act) is
 15 amended by adding after section 234 the following new
 16 section:

17 “PART B OFFSETS TO MONTHLY INSURANCE BENEFITS
 18 “Benefit Reductions

19 “SEC. 235. (a) Notwithstanding the preceding provi-
 20 sions of this part, for purposes of determining any benefit
 21 under this part for any month based on the wages and
 22 self-employment income of an individual who is an eligible
 23 individual under part B—

24 “(1) the Executive Director appointed under
 25 section 253 shall certify to the Commissioner of So-
 26 cial Security the total amount of monthly payments

1 payable for such month under part B in the dis-
2 tribution of amounts not in excess of such individ-
3 ual's distribution base, and

4 “(2) the Commissioner shall reduce such benefit
5 by the amount of the applicable part B offset in con-
6 nection with such individual applicable to such ben-
7 efit.

8 “Applicable Part B Offset

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

11 “(A) in the case of a benefit based on the wages
12 and self-employment income of an individual born on
13 or after January 1, 1979, the full part B offset in
14 connection with such individual allocable to such
15 benefit, determined under paragraph (2), or

16 “(B) in the case of a benefit based on the
17 wages and self employment income of an individual
18 born before January 1, 1979, the reduced part B
19 offset in connection with such individual allocable to
20 such benefit, determined under paragraph (3).

21 “(2) For purposes of paragraph (1)(A), the full part
22 B offset in connection with an individual allocable to a
23 monthly insurance benefit under this part is the portion
24 of the total amount of monthly payments payable for such
25 month under part B in the distribution of amounts not

1 in excess of such individual's distribution base which bears
 2 the same ratio to such total amount as the amount of such
 3 benefit bears to the total of benefits payable for such
 4 month under this part on the basis of such individual's
 5 wages and self-employment income.

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

10 “(i) the portion of the total amount of monthly
 11 payments payable for such month under part B in
 12 the distribution of amounts not in excess of such in-
 13 dividual's distribution base which bears the same
 14 ratio to such total amount as the amount of such
 15 benefit bears to the total of benefits payable for such
 16 month under this part on the basis of such individ-
 17 ual's wages and self-employment income, by

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

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

23 “(i) 1, over

24 “(ii) the product derived by multiplying—

25 “(I) $0.0033\frac{1}{3}$, by

1 “(II) the number of calendar years during
2 the period beginning with the calendar year in
3 which such individual was born and ending with
4 calendar year 1978.”.

5 (b) EFFECTIVE DATE.—The amendment made by
6 this section shall apply with respect to benefits for months
7 after December 2001.

8 **SEC. 5. MAINTENANCE OF ADEQUATE BALANCES IN THE**
9 **SOCIAL SECURITY TRUST FUNDS.**

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

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

1 ber 1 of such fiscal year. In making such determination
 2 and certification, the Commissioner shall use the inter-
 3 mediate actuarial assumptions used by the Board of
 4 Trustees of the Trust Funds in its most recent annual
 5 report to the Congress prepared pursuant to subsection
 6 (c)(2). The Commissioner shall also transmit a copy of
 7 any such certification to the Secretary of the Treasury,
 8 and upon receipt thereof, such Secretary shall promptly
 9 take appropriate actions in accordance with the certifi-
 10 cation.”.

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

14 **SEC. 6. TAXATION OF INDIVIDUAL SOCIAL SECURITY AC-**
 15 **COUNT PROGRAM.**

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

20 **“PART IX—INDIVIDUAL SOCIAL SECURITY**
 21 **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) CONTRIBUTION LIMIT ON SUPPLEMENTAL CON-
12 TRIBUTIONS.—The aggregate amount of supplemental
13 contributions under section 257(e) of the Social Security
14 Act for any taxable year to the individual social security
15 account of an individual shall not exceed the excess (if
16 any) of—

17 “(1) the maximum amount allowable as a de-
18 duction under section 219 with respect to such indi-
19 vidual for such taxable year (computed without re-
20 gard to subsection (d)(1) or (g) of such section),
21 over

22 “(2) the aggregate amount of contributions for
23 such taxable year to all individual retirement plans
24 maintained for the benefit of the individual.

25 “(c) DISTRIBUTIONS FROM INDIVIDUAL SOCIAL SE-
26 CURITY ACCOUNTS.—

1 “(1) EXCLUSION FOR SUPPLEMENTAL CON-
2 TRIBUTIONS (AND EARNINGS THEREON).—

3 “(A) IN GENERAL.—Any distribution from
4 an individual social security account attrib-
5 utable to supplemental contributions under sec-
6 tion 257(e) of the Social Security Act (and
7 earnings thereon) shall not be includible in
8 gross income.

9 “(B) ORDERING RULE.—For purposes of
10 subparagraph (A)—

11 “(i) amounts in the account attrib-
12 utable to supplemental contributions (and
13 earnings thereon) shall be determined in
14 the manner provided under section 72, de-
15 termined by treating such contributions
16 and earnings as investment in the contract,
17 and

18 “(ii) distributions shall be treated as
19 made from such contributions (and earn-
20 ings thereon) to the extent that the
21 amount of such distribution, when added
22 to all previous distributions from the ac-
23 count does not exceed the aggregate sup-
24 plemental contributions (and earnings
25 thereon) to the account.

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

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

3 “(3) DISTRIBUTIONS ON ACCOUNT OF
4 DEATH.—Any distribution from an individual social
5 security account on account of the death of the ac-
6 count owner shall not be includible in gross income.

7 “(d) DEFINITIONS.—For purposes of this section—

8 “(1) SAVINGS FUND.—The term ‘Social Secu-
9 rity Personal Savings Fund’ means the Fund estab-
10 lished by section 252 of the Social Security Act.

11 “(2) INDIVIDUAL ACCOUNTS.—For purposes of
12 this section, the term ‘individual social security ac-
13 count’ means an account established under section
14 256 of the Social Security Act.”.

15 (b) DISTRIBUTIONS TAXED AS SOCIAL SECURITY
16 BENEFIT.—Paragraph (1) of section 86(d) of such Code
17 (defining social security benefit) is amended by striking
18 “or” at the end of subparagraph (A), by redesignating
19 subparagraph (B) as subparagraph (C), and by inserting
20 after subparagraph (A) the following new subparagraph:

21 “(B) a distribution under section 260 of
22 the Social Security Act (other than a distribu-
23 tion excluded from tax under section
24 531(c)(1)), or”.

1 (c) EXCISE TAX ON EXCESS SUPPLEMENTAL CON-
2 TRIBUTIONS.—

3 (1) IN GENERAL.—Subsection (a) of section
4 4973 of such Code (relating to tax imposed) is
5 amended by striking “or” at the end of paragraph
6 (3), by redesignating paragraph (4) as paragraph
7 (5), and by inserting after paragraph (3) the fol-
8 lowing new paragraph:

9 “(4) an individual social security account (with-
10 in the meaning of section 531(d)), or”.

11 (2) EXCESS SUPPLEMENTAL CONTRIBUTIONS
12 DEFINED.—Section 4973 of such Code (relating to
13 tax on excess contributions to certain tax-favored ac-
14 counts and annuities) is amended by adding at the
15 end the following new subsection:

16 “(g) EXCESS SUPPLEMENTAL CONTRIBUTIONS TO
17 INDIVIDUAL SOCIAL SECURITY ACCOUNTS.—For pur-
18 poses of this section, in the case of supplemental contribu-
19 tions to an individual social security account (within the
20 meaning of section 531(b) of this title), the term ‘excess
21 contributions’ means the sum of—

22 “(1) the excess (if any) of—

23 “(A) the amount contributed for the tax-
24 able year under section 257(e) of the Social Se-

1 security Act to the individual social security re-
2 tirement account, over

3 “(B) the amount allowable as a contribu-
4 tion under section 531(b) of this title, and

5 “(2) the amount determined under this sub-
6 section for the preceding taxable year, reduced by
7 the sum of—

8 “(A) the distributions out of the account
9 for the taxable year, and

10 “(B) the excess (if any) of the maximum
11 amount allowable as a contribution under sec-
12 tion 531(b) of this title for the taxable year
13 over the amount contributed under section
14 257(e) of the Social Security Act by the indi-
15 vidual to the account for the taxable year.

16 For purposes of this subsection, any contribution
17 which is distributed from an individual social secu-
18 rity account in a manner similar to a distribution
19 described in section 408(d)(4) of this title shall be
20 treated as an amount not contributed.”.

21 (d) CONFORMING AMENDMENT.—The table of parts
22 for Subchapter F of chapter 1 of such Code is amended
23 by adding at the end the following new item:

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

1 (e) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2001.

4 **SEC. 7. REPORT ON PRIVATE SECTOR INVESTMENT AND**
5 **MANAGEMENT.**

6 (a) STUDY.—As soon as practicable after the date of
7 the enactment of this Act, the Social Security Advisory
8 Board shall undertake a study of the manner and extent
9 to which, upon attainment of balances in individual social
10 security accounts sufficient to minimize the administrative
11 costs involved, investment of amounts held in such ac-
12 counts may be managed in the private sector by approved
13 account managers. In carrying out the study, the Advisory
14 Board shall consult with such public and private entities
15 as it deems necessary and appropriate.

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

1 **SEC. 8. GUARANTEE OF FULL SOCIAL SECURITY BENEFITS**
2 **WITH ACCURATE ANNUAL COST-OF-LIVING**
3 **ADJUSTMENT.**

4 (a) IN GENERAL.—Not later than 90 days after the
5 date of the enactment of this Act, the Secretary of the
6 Treasury shall issue a benefit guarantee certificate to each
7 individual who is determined by the Commissioner of So-
8 cial Security as of the date of the issuance of the certifi-
9 cate to be entitled to benefits under title II of the Social
10 Security Act (42 U.S.C. 401 et seq.). The Secretary shall
11 also issue such a certificate to any individual on the date
12 such individual is determined thereafter to be entitled to
13 benefits under such title.

14 (b) BENEFIT GUARANTEE CERTIFICATE.—The ben-
15 efit guarantee certificate issued pursuant to subsection (a)
16 shall represent a legally enforceable guarantee—

17 (1) of the timely payment of the full amount of
18 future benefit payments to which the individual is
19 entitled under title II of the Social Security Act (as
20 determined under such title as in effect on the date
21 of the issuance of the certificate); and

22 (2) that the benefits will be adjusted thereafter
23 not less frequently than annually to the extent pre-
24 scribed in provisions of such title (as in effect on the
25 date of the issuance of the certificate) providing for
26 accurate adjustments based on indices reflecting

1 changes in consumer prices as determined by the
2 Bureau of Labor Statistics or changes in wages as
3 determined by the Commissioner of Social Security.

4 (c) OBLIGATION TO PROVIDE PAYMENTS AS GUAR-
5 ANTEED.—Any certificate issued under the authority of
6 this section constitutes budget authority in advance of ap-
7 propriations Acts and represents the obligation of the Fed-
8 eral Government to provide for the payment to the indi-
9 vidual to whom the certificate is issued benefits under title
10 II of the Social Security Act (42 U.S.C. 401 et seq.) in
11 amounts in accordance with the guarantee set forth in the
12 certificate.

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