EXECUTIVE SUMMARY

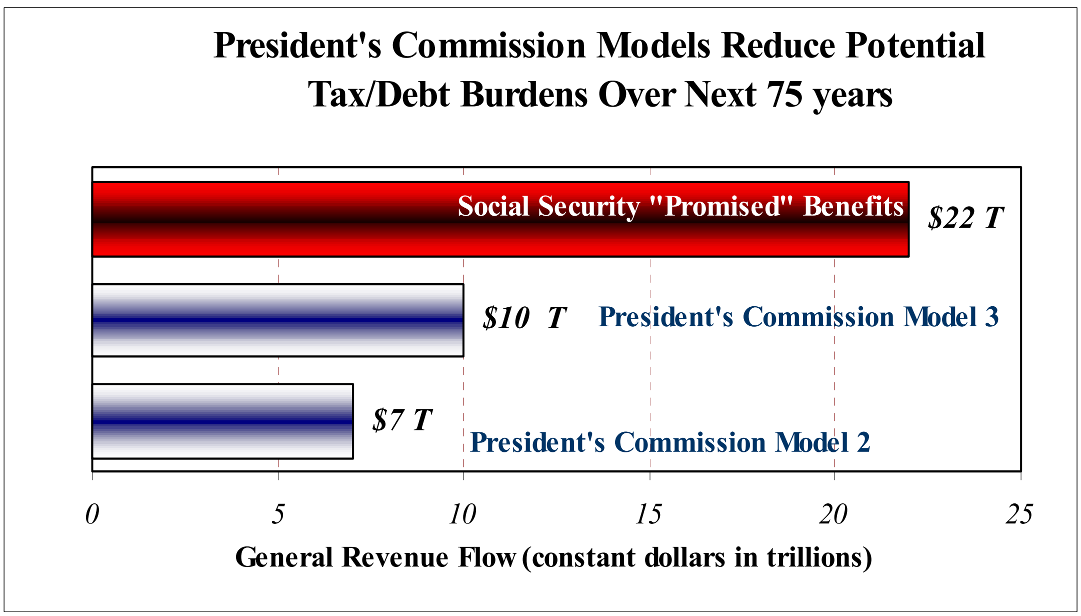
An Analysis of the Personal Retirement Account Framework Designed by the President's Commission to Strengthen Social Security

January 2004

Social Security is one of the most successful government programs in the U.S.. However, the Social Security Board of Trustees has consistently found in its annual reports that the program is unsustainable in its current form. Benefits for today's retirees and those about to retire are not at risk. However, Social Security must be fixed future generations. The 2003 Trustees Report shows the Social Security trust fund will eventually be able to pay only 65% of benefits. The President's Commission to Strengthen Social Security presented three models for strengthening Social Security. All models allow workers the choice of investing in personal retirement accounts. Models 2 and 3 would provide higher benefits for low-income individuals, disabled individuals, minorities, widows, divorcees, and survivors. Moreover, these models would also help to reduce revenue flows from the general fund to the Social Security trust fund compared to "promised" benefits.

- **Do the Social Security Personal Retirement Accounts have the ability to reduce debt or tax-financed General Revenue flows into Social Security?**

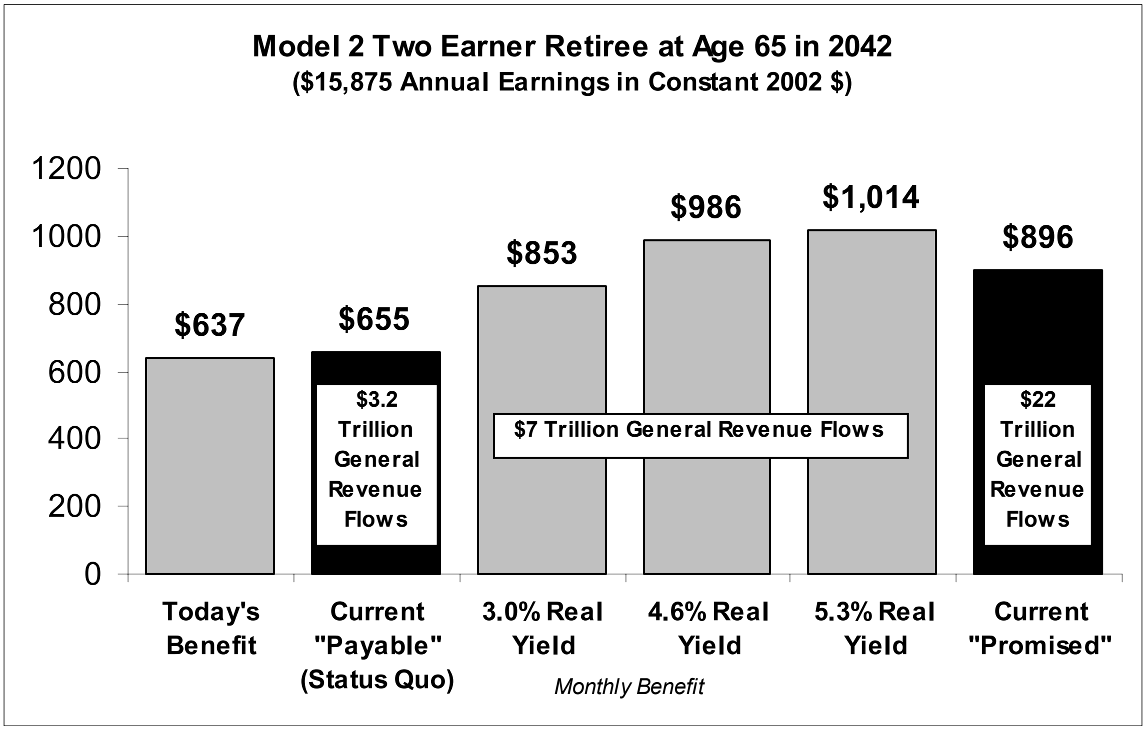
  Yes. One of the most stunning, yet overlooked, features of the President's Commission framework is the favorable tradeoff between benefit levels and general revenue flows compared to benchmarks. Projected General Revenue Flow, under the "*promised*" benefits benchmark, is $22 trillion[1]. Absent regressive payroll tax increases, these flows would need to be financed by increased federal debt or income taxes. Over the 75-year projection window, Model 3 projects a $10 trillion General Revenue flow and Model 2 projects only a $7 trillion General Revenue flow. This is $12 and $15 trillion *less* than projected revenue flows than the current system and protects benefit levels—especially for low-income earners.



[1] In constant U.S. dollars.

- **Do the President's Commission's models have the ability to benefit low-income American workers?**

  Yes. The calculated formula of Social Security is progressive. It is designed to replace a larger portion of earnings for low-income individuals. GAO found that under the President's Commission Models the median benefits for the lowest lifetime earners tend to be higher than the benefits received under the current system.



- **Do the President's Commission's models have the ability to benefit minority American workers?**

  Yes. GAO's April 2003 Report states that approximately 38% of minorities rely on Social Security as their only source of retirement income. The income gap between white & black households is reportedly continuing to narrow, the wealth gap continues to widen despite African-American income gains. Evidence suggests this disparity is due to a relative lack of investment in financial assets, particularly stocks. One innovation for minorities to obtain assets is to allow workers to build wealth in Social Security personal retirement accounts.

- **Do the President's Commission's models have the ability to benefit widows, divorcees and survivors?**

  Yes. Models 2 and 3 would increase benefits for 2 to 3 million widow(er)s from the current 50% to 75% of the couple's prior benefit. Future surviving children and widows would not only inherit the balance of the personal retirement account, but they would also receive the traditional defined survivor's monthly payment benefit. All 3 models call for retirement account assets to be split in the event of divorce, whereas under the current system, if divorce occurs before 10 years of marriage a spouse is not eligible to receive any benefits based on the husband's or wife's earnings.