

# The BIPARTISAN RETIREMENT SECURITY ACT

## *A Comprehensive, Bipartisan Plan to Save Social Security*

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### KOLBE-BOYD STRENGTHENS RETIREMENT SECURITY FOR LOW- INCOME WORKERS



The Bipartisan Retirement Security Act restores the solvency of the Social Security trust fund in a way that not only protects low-income workers from any reduction in benefits, but also strengthens the safety net provided by the Social Security program.

- **Strengthens the safety net through a new minimum benefit provision.** The Bipartisan Retirement Security Act contains a minimum benefit provision that will enable Social Security to lift more of the elderly out of poverty than current law. Under current law, nearly 8 million seniors receive benefits that are less than the poverty level. Under Kolbe-Boyd, no individual who works a full career will have to retire in poverty.

An individual who has worked for 40 years and qualified for 40 years of coverage will be guaranteed a Social Security benefit equal to 120% of the poverty level. The minimum benefit would be calculated *without regard to any other benefit changes*. Any income from individual accounts would supplement this guaranteed benefit. Widows/widowers would be covered by the minimum benefit guarantee based on his or her spouse's work history.

The example below illustrates the power and effectiveness of the improved government safety net. For a low-wage worker, the minimum benefit provision increases retirement income by more than 10% -- not including any balances that would accrue in the worker's personal account.

### **Example: Impact of the Minimum Benefit Provision on a Low-Wage Worker**

Worker earning 45% of the National Average Wage \$12,600 / yr

#### *Current Law Social Security Benefit*

Social Security benefit at Normal Retirement Age:	\$568
Plus: Spousal benefit (if applicable):	<u>\$284</u>
Equals: Total monthly Social Security benefit:	\$852

#### *Social Security Benefit under Kolbe-Boyd*

Poverty level for a single-person household over age 65	\$7,525	
Translated into a monthly benefit (divide by 12)		\$627
Plus: Spousal benefit (if applicable)	<u>\$314</u>	
Equals: Total monthly Social Security benefit	\$941	

Kolbe-Boyd increase over current law benefits: \$89 /month, or 10.4%

**Note: this amount does not include any balances that accrue in the worker's personal account. Consequently, total benefits will be even higher.**

- **Boosts replacement rates for low- and moderate-income workers.** Gradually phase in an actuarially neutral change in the replacement rates in the Social Security benefit formula to increase the progressivity of the guaranteed benefit. This change in the benefit formula will assist low-income workers who do not benefit from the new minimum benefit.
- **Shields disability and survivors benefits from changes in benefit formula.** The changes in the defined benefit formula would not apply to disabled workers until they convert to retired worker status at the normal retirement age. When a disabled individual converts to retired worker status and gains access to their individual account, their defined benefit would be adjusted based on the changes in the formula for retirement benefits, modified to reflect the smaller number of years the worker was able to contribute to an individual account before becoming disabled. Similarly, survivors would be eligible for the same fraction of the retired worker's benefit as under current law.
- **Expands savings opportunity for low-income workers.** The individual accounts in the Bipartisan Retirement Security Act will give low- and moderate-income workers the opportunity to benefit from investment opportunities that higher income workers already have with 401(k) plans, IRAs and mutual funds. The plan would direct 3% of the first \$10,000 in earnings into individual accounts and 2% of additional earnings up to the Social Security wage cap (\$90,000 in 2005). As a result, the contributions to individual accounts would be proportionally larger for low-income workers.

To help low-income workers take advantage of this new savings vehicle the Kolbe-Boyd plan provides a savings subsidy, or "match" for low-income workers who make voluntary contributions to their individual account. A maximum of \$600 per individual is allowed per year. To qualify for the subsidy in any given year, an individual must earn less than \$30,000 per year and make at least \$1 in voluntary contributions to their personal account.

- **Reduces pressure on other budget priorities.** The Kolbe-Boyd plan will put the costs of the Social Security system on a more sustainable level. As a result, it will protect other programs that benefit low-income families and prevent them from being squeezed out by the growing costs of the Social Security system.