CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES

September 14, 2004

Be part of the Biggest Social Security Reform bill in the History of Congress

Dear Colleague,

Fifteen members of the House have signed on as original sponsors of our bill to provide for personal accounts in Social Security. This is more cosponsors than have EVER been on a Social Security reform bill. Please join us as a cosponsor of H.R. 4895.

The time has come to reform the Social Security system to allow for retirement benefits to be pre-funded with the taxes individuals contribute. It is time to allow younger Americans to build wealth in their own name rather than continuing to build expectations in a program that cannot deliver.

We believe that the current system will not be able to deliver on all of its promises because by 2019, benefits for the elderly are expected to consume 25% of ALL federal tax dollars – income tax and payroll taxes combined! By 2030, (when today's 40 year old becomes eligible for Social Security retirement benefits) elder benefits are expected to consume 50% of all federal tax dollars. That means cuts in spending on military, road improvements, medical research, child nutrition and the thousand other priorities of this nation or it means more public debt and/or more taxes.

The current Social Security system will only have surpluses through 2018, but even those surpluses begin to dwindle starting in 2009. We must use those surpluses to allow those born since 1950 to set aside a portion of their payroll taxes into accounts to build wealth in their own name. We do not propose any change to the system for Americans born before 1950.

The details of our bill are on the second page of this letter.

Please join us and the other 12 original cosponsors of H.R.4895, the Individual Social Security Investment Program Account Act, in making a bold statement of how to achieve reform. For additional information or to cosponsor, please contact one of us or have your staff contact by phone or e-mail Kathleen Black (Johnson), Trista Wendell (Toomey) or Jennifer Trendler (Flake).

Sincerely,

Sam Johnson | Pat Toomey | Jeff Flake

Sam Johnson, MC | Pat Toomey, MC | Jeff Flake, MC

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Individual Social Security Investment Program Act of 2004 ISSIPA

July 2004

1. Workers born on or after January 1, 1950 would be allowed to divert their half of the payroll tax (6.2 percentage points of Social Security wages) to individually owned, privately invested accounts. Those who choose to do so would agree to forgo all future retirement benefits under the traditional Social Security system (except survivor's and disability benefits), and instead receive a Recognition Bond (see # 3 below). Workers born after 1982 would be required to enter the private account system.

2. The worker's 6.2% of salary would initially be deposited into a collective account (Tier I), that is then annually directed to each person's individual account (Tier II). The personal, Tier II accounts could be invested in a limited range of privately managed mutual funds under the terms established by a newly created Social Security Board. After a worker's Tier II account reaches a threshold value of $10,000, he could move money to a Tier III account offering a wide range of funds. Qualifications for Tier III investment options and fund managers would also be determined by the Social Security Board.

3. Workers who choose the individual account option would receive a Recognition Bond based on the pro-rata percentage of future benefits they have earned as of the date on which they opt into the reformed system. Those bonds, redeemable at the worker's 67th birthday, would be fully tradable in secondary markets prior to their redemption date. If a worker chooses to sell his Recognition Bond, then all proceeds would have to be deposited in the worker's individual account.

4. A worker who chooses private accounts must purchase for his retirement, an inflation-adjusted annuity at least equal to 120% of the poverty level. A Federal government guarantee will insure that the combination of the Recognition Bond and accumulated savings in his personal investment account are sufficient to purchase this annuity.

5. If, at anytime, a worker has accumulated enough savings in his personal account to purchase a retirement annuity that is greater than or equal to 120% of the poverty level, he may do so. After such an annuity is purchased, the worker's annual deposits into Tier I could be rebated rather than being deposited in Tier II or III, making further participation in the personal account system voluntary.

6. The employer's share of payroll tax (6.2%) would be used to pay transition costs and to fund disability and survivor benefits.

7. Those who wish to remain in the traditional Social Security system would be free to do so. However, beginning in 2012, the formula used to calculate the initial benefit level (only for those people who begin to collect benefits after 2012) would gradually be adjusted to index those future benefits to price inflation rather than national wage growth. This transition would occur incrementally over a 30-year period.

From the offices of Reps. Sam Johnson, Pat Toomey, and Jeff Flake