Summary of Senator Bob Bennett's Proposed Social Security Legislation

Senator Bennett believes enactment of Social Security reform legislation during this Congress is of critical importance. Such legislation must restore sustainable solvency to the existing system and enhance retirement security for America's current and future workers.

The president exhibited tremendous leadership in calling upon Congress to address these important issues. Unfortunately, the debate has become too polarized by centering almost exclusively on the merits of the president's proposal to allow workers to create and contribute to Personal Accounts with a portion of their Social Security taxes.

Personal Accounts alone cannot fix Social Security's solvency problem. At the same time, addressing the long-term retirement security needs of future retirees cannot be met without Personal Accounts and stronger incentives to increase personal savings.

The current lack of consensus in Congress concerning Personal Accounts should not be allowed to stand in the way of essential legislation to address Social Security's chronic solvency problem, which will only become more acute and intractable in the absence of timely action. Therefore, in an attempt to move the political process forward to start dealing today with what will be unavoidable tomorrow, Senator Bennett has announced that he will be introducing two separate pieces of legislation. He is seeking both Democratic and Republican senators to join him in all or part of this effort.

Specifically, Senator Bennett will introduce one bill that addresses only the solvency problem and does not increase the payroll tax rate or expand the base of earnings subject to Social Security taxes. The senator will also introduce a second bill to enhance the income security of future retirees by allowing the creation of "Carve In" Personal Accounts and revising existing pension laws to encourage higher levels of personal retirement savings in employer-sponsored pension plans.

The following provides a brief summary of the two separate pieces of legislation that Senator Bennett plans to introduce. The precise details of the legislation may change as Senator Bennett continues his discussions with and receives input from Democratic and Republican Senators. It is Senator Bennett's hope that one or both of these bills will have sponsors from both parties.

Solvency Legislation

1. Progressive Indexing -- In 2012, begin the phase in of "progressive indexing" to determine initial retirement benefits under Social Security for new retirees. Under current law, retirement benefits are calculated under a "wage indexing" formula that will help propel benefits to levels significantly higher than the payroll tax revenue available to pay for them. The formula uses the average rate of growth of wages within the economy, rather than changes in the cost of living, to adjust (or "index") the past earnings of a worker that are used to determine their initial benefit level at retirement. Because average wages generally grow faster than prices over time, the current benefit formula essentially guarantees that future retirement benefit levels will grow faster in "real" dollar value from generation to generation.

Under Bennett's proposal, the individuals in the lowest 30 percent of all wage earners retiring in a given year would continue to have their past wages, and resulting benefit levels, indexed according to wage growth, while those at the top of the wage distribution would have their past wages indexed for changes in prices. Those falling in between would have their past wages indexed based upon a "progressive blend" of wage and price changes. In short, future benefit levels for workers who earned higher wages over their working career would not rise as much as benefit levels for workers with lower lifetime earnings, but those workers most dependent on social security for retirement income would be protected from such changes.

2. Longevity Indexing and Acceleration of Present Law Normal Retirement Age Changes -- Under present law, the retirement age is scheduled to increase incrementally to age 67 beginning in 2022 (the normal retirement age gradually increases for workers born in 1960 and later years, by two months each year starting in 2022 until it reaches age 67 in 2027). Under Senator Bennett's proposal, the move from age 66 to age 67 would begin in 2012. The Normal Retirement Age or NRA would be increased by two months each year until the NRA reached age 67 in 2017. After that date, initial benefits for future retirees would be periodically adjusted by the Social Security Administration to account for changes in the expected average lifetimes of future retirees.

3. Protection of Disabled Workers -- This proposal would exempt those receiving disability benefits under the Social Security system from the application of changes in the benefit formulas while they are disabled. Upon reaching retirement age, their benefits are no longer paid by the Disability Insurance Trust Fund and they become eligible for retiree benefits financed by the Old Age and Survivor Trust Fund. At that point, their retirement benefits would be calculated using a blend of the two formulas that would account for the relative periods of time when they were disabled and when they were able to engage in covered employment.

Carve In Accounts and Enhanced Retirement Savings Opportunity

1. "Carve In" Personal Accounts -- Beginning four years following enactment, workers would have the opportunity to create voluntary "carve in" personal accounts. Under this proposal, workers who elected to contribute an additional 2% of their wages into a TSP style personal account would also be allowed to have Social Security tax contributions equal to 2% of their covered wages moved into that account as well. Investment options would be similar to those offered Members of Congress and federal employees in their TSP plan. For workers choosing carve-in accounts, their future retirement benefits from the core Social Security program would be adjusted to reflect the lower level of tax contributions of these workers allocated to the traditional Social Security retirement fund.

2. Save More Tomorrow Accounts and Private Pension Reforms -- Increased savings by employees would be encouraged through the use of an "Opt Out" rather than an "Opt In" approach to employee pension contributions. Specifically, unless employees chose not to contribute to company 401(k) or similar pension plans by opting out of automatic enrollment, they would contribute at a default rate. Each year the level of an employee's contributions would increase by 1% until the maximum contribution rate was reached. Additionally, employees would be allowed to commit to having a portion of future raises automatically invested in

their accounts. Employers would also agree to a prescribed level of matching contributions. In exchange, employers would be deemed to have satisfied various non-discrimination regulations under existing law. Research has shown that changing from an "Opt In" to an "Opt Out" approach dramatically increases both participation and the savings rates of all employees, but especially workers within lower-income and minority populations.

Senator Bennett believes that the enactment of both legislative proposals will restore the solvency of the Social Security system and provide for increased retirement income for America's workers. It will do so in a fair and equitable manner and without increasing the tax burden on working Americans. The inability to reach a comprehensive agreement incorporating the elements of both proposals should not be allowed to stand in the way of beginning meaningful progress through passage of solvency legislation.