

The Social Security Guarantee Plus Plan

Keeping Social Security's Promise

- (1) Preserves and Guarantees the Social Security Safety Net
 - Fully preserves and guarantees Social Security benefits for life.
 - Fully preserves and guarantees cost-of-living adjustments.
 - Fully preserves and guarantees survivor and disability benefits.
 - No exposure to individual investment risk.
- (2) Treats All Workers Fairly
 - No tax increases.
 - No increase in retirement age.
 - No unfair burden on young and future workers.
 - Eliminates the senior work penalty, helping seniors who want or need to work.
- (3) Worker Ownership
 - Workers voluntarily elect an annual refundable income tax credit equal to 2-3% of wages to be deposited in their own Guarantee Account.
 - Workers - not the government - choose where to invest their retirement savings.
 - Accounts may pass tax-free to the heirs of workers who die before retirement - creating real wealth for many for the first time.
- (4) Saves Social Security for 75 years and Beyond
 - The Actuaries of the Social Security Administration confirm the plan saves Social Security beyond current law (2038) and even 2075 (standard 75 year measurement period).
 - Modernizes depression-era financing structure to reflect today's aging population, so there are no more threats of future tax hikes or benefit cuts every few years.
 - Creates a saving plan within Social Security to pay future benefits.
 - Benefits are backed by real assets, not IOUs.
 - Pays for itself and improves the government's bottom line in the long run.
- (5) Enhances Benefits for Women
 - Increases widows' benefits.
 - Expands eligibility for widows with disabilities and for divorced spouses.
 - Helps eliminate the homemaker penalty women pay who choose to stay at home to take care of their children.
 - Reduces the penalty spouses pay for working in certain state and local government jobs not covered by Social Security.
- (6) Consistent with the President's Principles and House Vote
 - President – Guarantees promised benefits to retirees, near retirees, and all workers; no tax increases; no government investing; fully preserves disability and survivor benefits; voluntary personal retirement accounts ensure current law benefits will be paid and increase retirement income.
 - House – Guarantees current law promised benefits, with cost-of-living-adjustments to current and future retirees, improves benefits for women, provides minorities and others the opportunity to build wealth, without increasing taxes.

How the Guarantee Plus Plan Works

The *Social Security Guarantee Plus* plan saves Social Security by modernizing the Depression-era pay-as-you-go financing system. Instead of relying on today's tax-and-transfer financing system, the Guarantee Plus plan saves money today to help pay benefits tomorrow.

As more benefits are funded in advance and take advantage of the better rates of return available in the equity and bond market, the program's costs fall and the program's cash shortfall is eliminated, thus saving Social Security. For the first time ever, benefits will be backed by real assets instead of government IOUs, which represent claims on future taxpayers.

- 1) Each year (starting with 2002) workers covered under Social Security would receive a refundable tax credit equaling 3% of wages up to \$17,829¹ (in 2002) and 2% of wages above that, up to the Social Security wage cap (\$84,900 in 2002). The maximum credit would be about \$1,876 in 2002 and would be indexed to annual increases in wage growth. The tax credit is automatically deposited into the worker's account.
 - 2) Workers would have a choice of qualified asset managers to invest their accounts. The investments would be required to meet safety and soundness standards. A Social Security Guarantee Board, composed of 6 members appointed by the Board of Trustees and similar to the Federal Retirement Thrift Savings Board, will establish regulations for investment policies.
 - 3) Contributions would be invested in a 60/40 mix of equity index funds and high-grade corporate bonds. A nationwide education campaign would be launched to help workers learn about their options before they make a selection. Workers who do not choose an investment option would be automatically placed in a standard investment option. Workers would have the choice of changing their asset manager each year. Account earnings accrue tax-free. Accounts cannot be accessed for any reason prior to retirement or disability.
 - 4) Once a worker begins receiving retirement, disability or survivor benefits, the worker will receive 5% of the account balance to take as a lump sum. Social Security will calculate a monthly pay-out from the account based on the remaining account balance. The calculation accounts for inflation, future expected earnings on the account, and survivor benefits. Men and women are treated equally, even though women tend to live longer on average. Workers are guaranteed the higher of the current-law Social Security benefit or the annuity based on the account. Nobody receives a benefit cut, regardless of how the account performs.
 - 5) Every month, the beneficiary will receive a single check from the Social Security Administration. Every month, the annuity from the account will be transferred to the trust funds to help pay the benefit. Even if the account is depleted while the individual is still collecting benefits, he will still continue receiving his full Social Security benefit. If the annuity from the account is higher than the worker's current law Social Security benefit, the worker will receive the higher amount for life.
- Workers who die before collecting benefits may leave their accounts to their heirs tax-free.
 - Workers who outlive their account balances continue to receive full benefits financed wholly from the trust funds.
 - Workers who are not eligible for Social Security once they reach full retirement age will receive their account balance as a lump sum.
 - Workers who choose not to collect Social Security may leave their accounts to their heirs tax-free.

¹ This amount is 21% of the wage cap, and is used since it is also approximately half of the average national wage, because it is indexed to wage growth, and because it is published before the beginning of each year.

The Social Security Guarantee Plus Plan

Increasing Protections for Today's Women

Summary

The *Social Security Guarantee Plus* plan represents increased protection for women, not only by securing the future of the current Social Security and guaranteeing full benefits, including cost-of-living adjustments (COLAs), but also by enhancing benefits for widows, divorced spouses, and working mothers. Finally, the Guarantee Plus plan strengthens Social Security's safety net without exposing women to individual market risk.

Women are heavily dependent on Social Security benefits during retirement because they often have little or no pension savings or other sources of income. In 1998, Social Security provided the only source of income for over one-fourth of women age 65 and older.

Several features of the Social Security program are important to women: lifetime benefits, inflation protection, a progressive benefit formula, and family benefits. The Guarantee Plus plan fully protects these features of the Social Security program, insuring women will be financially secure during retirement.

In addition, the Guarantee Plus plan improves benefits for women by increasing widows' benefits and expanding eligibility for divorced spouses and disabled widows. These enhancements respond to trends in marriage, child-rearing, and labor force participation. Most importantly, they will help prevent more women from living in poverty in old age.

Benefit improvements in the Guarantee Plus plan:

- ✓ **Widows** – For all new and current widow beneficiaries in 2003, increases widow(er)s' benefits from 100% of the deceased worker's benefit to 75% of the couple's benefit while both were alive, up to a maximum of the average retiree's full benefit amount, thereby increasing the widow(er) benefit of lower wage workers 8-25 percent.
- ✓ **For widows with disabilities** – For all new disabled widow beneficiaries in 2003, allows widows with disabilities of any age to qualify for benefits based on the deceased workers' earnings. This helps widow(er)s with disabilities who may have insufficient wages to qualify for disability benefits.
- ✓ **For divorced spouses** – For all new divorced spouse beneficiaries in 2003, divorced women would no longer need to wait two years to receive spouse benefits if their ex-spouse marries someone else.
- ✓ **For working women** – For all new and current beneficiaries in 2003, provides a child-care credit equaling 25% of the homemaker's previous wages for up to 5 years, if the worker is caring for a child age 6 or under. This helps improve the benefits of persons who take time out of the workforce to care for young children.
- ✓ **For certain State, Local, and Federal workers, including teachers** – For all new and current beneficiaries in 2003, reduces the Government Pension Offset (GPO) of spousal benefits from 2/3 to 1/3 of the pension from non-covered work. In December 1999, 69% of persons affected by GPO were women.

Enhancing Widow's Protection

The Guarantee Plus plan improves benefits for widows and enables more disabled widows to receive benefits. These provisions will help improve the economic security of elderly and disabled women. In addition, widows may inherit the Guarantee Account of their spouse, further increasing their financial security and retirement wealth.

Widows are one of the largest and most vulnerable groups among the elderly beneficiaries. In 1999, 16% of elderly widow beneficiaries were in poverty, compared to only 8% of all elderly beneficiaries. Widows with disabilities are especially vulnerable – their average monthly benefit was only \$521 in 2001, compared to \$815 for widows and \$789 for disabled workers.

The Guarantee Plus plan increases benefits for widows.

Under Social Security today, widows receive benefits that are between 50% and 67% of the benefits the couple received when both were alive. The Guarantee Plus plan would allow widows to receive either 75% of the couple's combined benefit before the worker died, or the average retired worker benefit, if lower. In no case would a widow receive less than under current law.

Real Life Example

Dorothy is married to Michael and both are low-wage workers. Both retire at age 62. Michael dies in 2003. Under current law, Dorothy would receive benefits of \$598 per month (in today's dollars).

Under the Guarantee Plus plan, Dorothy would receive \$832 (in today's dollars) per month guaranteed, plus 5% of her account.

Widows and widowers with disabilities receive additional benefit protections.

Under current law, a widow with a disability may receive benefits if she is age 50-59 and became disabled within 7 years of her spouse's death. The Guarantee Plus plan expands this protection by allowing widows with disabilities of any age to receive benefits, regardless of when the spouse died.

Real Life Example

Janet and Joe are age 21 and married. Janet is a homemaker and Joe was a high-wage worker who began to work in 2001. When Joe dies at age 50, Janet begins working, but becomes disabled at age 58. Under current law, Janet is not eligible for disabled worker's benefits because more than 7 years have elapsed since Joe died.

Under the Guarantee Plus plan, Janet would receive the balance of \$73,549 (in today's dollars) from Joe's Guarantee Account when he dies, and when she becomes disabled she would be eligible for a disabled widow's benefit of \$1,604 a month (in today's dollars), guaranteed.

Also, young widows who become disabled would be able to receive their widow's benefits earlier than age 50. The median family income for disabled beneficiaries under age 50 is about half the income of non-disabled workers. In addition, women who are not married and workers under age 40 have the highest poverty rates among the disabled. Around 36% of women who are receiving disability benefits and are not married are poor, and about one-half are poor or near-poor.

Real Life Example

Rosa and Kobe are age 21 and married. They began to work in 2001. Rosa, who was a homemaker, becomes a widow at age 35 when her husband Kobe, a high-wage worker, dies. Five years later Rosa becomes disabled. Under current law she would not be eligible for a disability benefit.

Under the Guarantee Plus plan, she would be entitled to a disabled widow's benefit of \$1,284 (in today's dollars) each month based on Kobe's work record. In addition, at the time of Kobe's death in 2015 she would receive a payment of \$19,198 (in today's dollars) from Kobe's Guarantee Account, plus 5% of her account.

Providing Economic Security for Divorced Women

Divorced women would no longer need to wait to receive spouse benefits if their ex-spouse marries someone else within two years. Under current law, in certain circumstances where the retired individual is working or hasn't started collecting benefits, women must wait two years after divorcing before they may receive divorced spouse benefits. The Guarantee Plus plan eliminates this two-year waiting period when the ex-spouse marries someone else.

Women would receive equal shares of the couple's contributions in the event of divorce. The contributions and accumulations to a couple's Guarantee Accounts during a marriage would be divided equally upon divorce as long as the marriage lasts at least one year. This recognizes that couples share assets during marriage, and that a lower-earning spouse should not be penalized at divorce.

Benefits for divorced surviving spouses could be higher than under current law.

In addition to allowing divorced women to keep a portion of the Guarantee Account accumulated during marriage, the Guarantee Plus plan increases widow's benefits to 75% of what the couple was receiving before the worker died, or the average retired worker benefit.

Real Life Example

Elizabeth, a 40-year old low-wage worker, is married to Robert who is the same age, but is an average-wage worker. They divorce in 2009 after 8 years of marriage. Under current law, because their marriage did not last 10 years, Elizabeth would never receive any Social Security benefits based on Robert's work record. But when she retires at age 62 she would receive a benefit based on her own work record of \$622 a month (in today's dollars).

Under the Guarantee Plus plan, at the time of divorce Elizabeth and Robert would each receive one-half of the sums then accrued in their Guarantee Accounts. Thus, Elizabeth would receive into her Guarantee Account a net transfer of \$1,769 (in today's dollars) from Robert's account.

Enhances Benefits for Working Women

The Guarantee Plus plan enhances benefits for women who take time away from the workforce to raise young children and those whose jobs are not covered under Social Security. These provisions will help improve the economic security of women when they retire or if they become disabled.

More and more, women are participating in the workforce. Yet, many must either reduce their work hours or withdraw completely for several years to care for their children. As a result, women have three times more years with no earnings and even more years of reduced earnings figured into their benefit amounts, which reduces their monthly benefits.

The Guarantee Plus plan would give a credit equaling 25% of the worker's average wages to a mother (or father) who takes time out of the workforce to care for their children age 6 or younger.

Women with young children are less likely to work full time than other women. Only 65% of women with children under age 6 were working in 2000, compared with 79% with older children. The childcare credit helps insure these women continue to build Social Security benefits while performing this vital role in our society.

Real Life Example

Lucy was divorced after 9 years of marriage and spent most of her work career at home raising her children. When she reaches age 62 in 2003, she has only 10 years of Social Security covered work, during which she earned low wages. Under current law, her benefit would be \$235 (in today's dollars) a month.

Under the Guarantee Plus plan, because of the additional 5 years of childcare credits, her benefit would be \$263 (in today's dollars) per month. Moreover, these benefits are guaranteed and Lucy will receive a 5% lump sum from her account.

The Guarantee Plus plan increases benefits for persons with pensions from work not covered under Social Security.

Today, many women are dually entitled to benefits. They may receive their own Social Security worker's benefit, and if that is less than 50% of their spouse's benefit, they receive the additional amount as a Social Security spousal benefit. However, if a spouse receives a pension from work not covered by Social Security, she is affected by the Government Pension Offset (GPO). Under the GPO, her spouse benefit is reduced by 2/3 of the amount of her pension from non-covered work. Of those affected by the GPO, 69% are women. The Guarantee Plus plan would reduce the GPO offset to 1/3 of the pension from non-covered work, and increase the benefits of 50% of those currently affected by the GPO.

Real Life Example

Mona is married to Mike. Both are age 21 today and earn average wages. Mona works all her career as a teacher and her wages are not covered by Social Security. She retires at age 62 and her teacher's pension is \$800 per month (in today's dollars). Under current law, Mona's Social Security spousal benefit of \$570 based on Mike's earnings would be reduced to \$37 per month, a two-thirds reduction of her non-covered pension.

Under the Guarantee Plus plan, her spousal benefit would be \$303 per month (in today's dollars), reflecting only a one-third reduction.