Testimony of

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CONSEQUENCES OF PERSONAL RETIREMENT ACCOUNTS

(TWO PERCENT OF PAYROLL DEPOSITED EVERY YEAR)

- CURRENT LAW SOCIAL SECURITY RETIREMENT AND SURVIVORS BENEFITS IN 2050 AND BEYOND CAN BE GUARANTEED BY A PAYROLL TAX NO HIGHER THAN THE ONE WE HAVE TODAY.
- PRIVATE ACCOUNTS WILL PROVIDE MORE THAN HALF OF SOCIAL SECURITY INCOME FOR TODAY'S TEENAGERS.
- CONTRIBUTIONS TO PRIVATE ACCOUNTS WILL BE DIVIDED EQUALLY BETWEEN HUSBANDS AND WIVES.
- PRA FUNDS WILL BECOME PART OF THE ESTATE OF THE DECEASED PRIOR TO RETIREMENT (UNLESS NEEDED TO PAY SURVIVORS BENEFITS).
- IF AT ANY POINT INDIVIDUALS ARE ABLE TO ANNUITIZE THEIR GUARANTEED SOCIAL SECURITY BENEFIT WITH A PORTION OF THEIR PRA FUNDS, THEY MAY WITHDRAW THE REMAINING FUNDS FOR PERSONAL USE, OR INVEST THEM AT WILL.

ASSUMPTIONS AND SPECIFICS

- PARTICIPATION IN THE PRA SYSTEM WILL BE VOLUNTARY, BUT THOSE CHOOSING NOT TO PARTICIPATE MUST AFFIRMATIVELY OPT OUT.
- APPROXIMATELY TWO PERCENTAGE POINTS OF PAYROLL TAX WILL BE DEPOSITED EACH YEAR IN PERSONAL RETIREMENT ACCOUNTS:
  - → IN THE INITIAL YEARS, THE PERCENT DEPOSITED MAY VARY FROM YEAR TO YEAR, DEPNDING ON THE SIZE OF SOCIAL SECURITY SURPLUSES.
  - → IF SOME PEOPLE DECIDE TO REMAIN IN THE OLD SYTEM, THE CONTRIBUTION RATE TO PRAs CAN BE HIGHER THAN TWO PERCENT FOR THOSE WHO PARTICIPATE.
- PRA FUNDS ARE REQUIRED TO BE INVESTED IN A BALANCED PROTFOLIO OF STOCKS (70%) AND BONDS (30%), ASSUMED TO EARN A 5.6 PERCENT REAL RATE OF RETURN.
- ADMINISTRATIVE COSTS ARE HELD TO 0.2% BY:
  - → HAVING THE SOCIAL SECURITY ADMINISTRATION BEAR THE COSTS OF COLLECTION, DEPOSIT AND RECORD KEEPING.
  - → HAVING PRIVATE INVESTMENT COMPANIES MANAGE PRA DEPOSITS UNDER CONTRACT WITH THE SSA.

- → ALLOWING INDIVIDUALS TO CHOOSE AMONG COMPETING INVESTMENT COMPANIES ONLY AFTER THEIR ACCOUNTS REACH A MINIMUM LEVEL.
- → ALLOWING EMPLOYERS (AND THE SELF-EMPLOYED) TO DIRECTLY DEPOSIT EMPLOYEE PRA FUNDS WITH INVESTMENT COMPANIES (SIMILAR TO 401(k) ARRANGEMENTS), PROVIDED THE EMPLOYER IS WILLING TO BEAR ANY EXCESS ADMINISTRATIVE COSTS.

- AT THE TIME OF RETIREMENT, AN INDIVIDUAL'S PRA FUNDS CONTINUE TO BE INVESTED IN A BALANCED PORTFOLIO AND BENEFITS ARE PAID:
  - → BY ANNUITIES, WHOSE PAY OUT RATE MAY VARY FROM YEAR TO YEAR; OR
  - → BY AN INVESTMENT COMPANY THAT PAYS BENEFITS ACCORDING TO A SCHEDULE PRESCRIBED ANNUALLY BY THE SECRETARY OF THE TREASURY.
- CURRENT LAW SOCIAL SECURITY BENEFITS ARE GUARANTEED BY THE GOVERNMENT AND RETIREES WILL RECEIVE A MONTHLY CHECK FROM THE GOVERNMENT EQUAL TO THE DIFFERENCE BETWEEN THE GUARANTEED BENEFIT AND THE MONTHLY AMOUNT PAID FROM A PRA ACCOUNT.
- BECAUSE MARKET RETURNS VARY FROM YEAR TO YEAR GOVERNMENT PAYMENTS TO INSURE THAT RETIREES GET THEIR GUARANTEED BENEFITS WILL ALSO VARY FROM YEAR TO YEAR;

THESE FLUNCTUATIONS CAN BE SMOOTHED OUT BY (a) BORROWING AND LENDING, (b) RAISING AND LOWERING PRA CONTRIBUTION RATES, (c) RAISING AND LOWER PAYROLL TAX RATES, OR (d) SOME SORT OF REINSURANCE MECHANISM. OUR FORECAST IS CONSISTENT WITH (a).

- SOCIAL SECURITY BENEFITS WILL BE PARTLY FUNDED BY AN ANNUAL INFUSION OF GENERAL REVENUE EQUAL TO AN ESTIMATE OF THE EXTRA TAXES COLLECTED BECAUSE OF A LARGER CAPITAL STOCK DUE TO THE PRA PROGRAMS.
- A SPOUSE (AND OTHER DEPENDENTS) MAY INHERIT THE PRA ACCOUNT OF AN INDIVIDUAL WHO DIES PRIOR TO RETIREMENT PROVIDED THE DEPENDENTS DO NOT CLAIM BENEFITS BASED ON THE DECEASED WORKER'S CONTRIBUTIONS; OTHERWISE, THE PRA FUNDS OF THE DECEASED WILL BE USED TO PARTIALLY FUND THE BENEFIT OF THE DEPENDENTS.
- ALL CONTRIBUTIONS ARE DIVIDED EQUALLY BETWEEN THE SEPARATE PRA ACCOUNTS OF HUSBANDS AND WIVES; HOWEVER, BOTH SPOUSES ARE GUARANTEED THE BENEFIT THEY WOULD HAVE RECEIVED UNDER THE CURRENT SYSTEM.
- AN UNSPECIFIED "BONUS" WILL BE PAID TO THOSE WHO CHOOSE TO HAVE A PRA ACCOUNT TO INDUCE THEM TO ELECT THE PRA OPTION.