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December 19, 2001

Keep the Social Security Promise for All Generations - Co-sponsor H.R 3497, the "Social Security Guarantee Plus Act of 2001"

Dear Colleague:

On December 12th, the House overwhelmingly approved (415-5) H .Con. Res. 282 to develop legislation to strengthen Social Security as soon as possible and to guarantee current law promised benefits without increasing taxes. Last week, I introduced my plan, *the Social Security Guarantee Plus Act of 2001,* H. R. 3497, to fulfill this promise. The Guarantee Plus plan is also consistent with the President's principles for reform and the first option set forth by the President's Commission to Strengthen Social Security.

The Social Security Guarantee Plus plan would preserve and guarantee current law promised retirement, disability, and survivor benefits for today's beneficiaries, near retirees, and all workers. It would also provide workers the opportunity to build retirement wealth and create inheritable wealth. My plan improves benefits for women - it provides more generous benefits to the widows of lower-wage workers, reduces the Government Pension Offset, provides child-care credits for working parents caring for young children, expands eligibility for disabled widows and divorced spouses, eliminates the senior earnings penalty, and saves Social Security for 75 years and beyond.

Under my plan, everybody is better off. Nobody would receive less than what is promised under current law, including COLAs. In fact, each beneficiary will receive a certificate guaranteeing full benefits for life. Nobody is exposed to individual investment risk, and in addition, workers would be able to keep a portion of their account at retirement. If a worker dies before receiving benefits, the account balance would go to his estate.

The Guarantee Plus Plan accomplishes all this by setting aside real assets to pre-fund benefits, just as companies must back their workers' pensions with real assets. My plan uses general revenues to establish voluntary personal accounts and is fully self financing within the 75-year evaluation period. (See enclosures for additional information.)

I believe strongly that we that we can and will work in a bipartisan manner to save Social Security, provided we choose to legislate for the next generation, not the next election. Let your constituents know where you stand on saving Social Security. Co-sponsor H.R. 3497 and say:

- NO to privatizing; YES to securing Social Security as we know it.
- NO to lowering benefits or increasing taxes; YES to benefit guarantees.
- NO to more government IOUs; YES to real savings through voluntary personal savings accounts.
- NO to government investment; YES to worker choice and worker-controlled investing in safe, market investments.
- NO to program bankruptcy and burdening our children with debt into years unknown; YES to a solvent, debt-free Social Security program.

Sincerely,

Clay

E. Clay Shaw, Jr.

Enclosures

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.

The Social Security Guarantee Plus Plan

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 $17,829[1] (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 benefits. 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 <u>before</u> 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.