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Social Security: Recommendations of the 1994-1996 Advisory Council on Social Security

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Social Security: Recommendations of the 1994-1996 Advisory Council on Social Security

Summary

In 1994, the Secretary of Health and Human Services (HHS) appointed the last quadrennial Advisory Council on Social Security. At that time, the Social Security Act stipulated that every 4 years the Secretary of HHS appoint an Advisory Council on Social Security for the purpose of reviewing the status of the Old-Age, Survivors and Disability Insurance (OASDI -- usually regarded as “Social Security”) Trust Funds, as well as the Hospital Insurance and Supplementary Medical Insurance (Medicare) Trust Funds. When announcing the appointment of the Advisory Council, the Secretary asked the Council to focus only on the Social Security program, and specifically requested that it examine the program’s long-range financial status, as well as the adequacy and equity of its benefits and the relative roles of the public and private sectors in providing retirement income. Although not stated as such, this charge reflected a general concern about Social Security’s long-range solvency and the growing loss of public confidence in the system.

These problems are reflected in the long-range projections of Social Security’s income and outgo. Although currently Social Security’s income exceeds its outgo, its board of trustees projects that over the next 75 years its expenditures will exceed its income on average by 16%. The primary reasons are demographic: an aging post-World War II “baby boom” generation, declining birth rates, and increasing life expectancies are creating an older society. It is projected that by 2029 the program’s trust funds would be fully depleted and the system would be technically insolvent.

On January 6, 1997, the 1994-1996 Advisory Council on Social Security issued its report on ways to solve the program’s long-range financing problems. As the Council could not reach a consensus on a particular approach, the report contains three different proposals that are intended to attain the goal of restoring long-range solvency to the Social Security system. The first proposal, labeled the “maintain benefits” plan, keeps the program’s benefit structure essentially the same by addressing most of the long-range deficit through revenue increases, including an eventual rise in the payroll tax, and minor benefit cuts. To close the remaining gap, it recommends that investing part of the Social Security trust funds in the stock market be considered. The second, labeled the “individual account” plan, restores financial solvency mostly with reductions in benefits, and in addition imposes mandatory employee contributions to individual savings accounts. The third, labeled the “personal security account” plan, achieves long-range financial balance through a major redesign of the system that gradually replaces a major portion of the Social Security retirement benefit with individual private savings accounts.

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Social Security: Recommendations of the 1994-1996 Advisory Council on Social Security

The 1994-1996 Advisory Council was appointed in 1994 under the requirements of then-current law,¹ which stipulated that every 4 years the Secretary of Health and Human Services (HHS) appoint an Advisory Council on Social Security for the purpose of reviewing the status of the Old-Age, Survivors and Disability Insurance (OASDI -- usually regarded as “Social Security”) Trust Funds, as well as the Hospital Insurance (HI) and Supplementary Insurance (Medicare) Trust Funds. The law also required that the Council consist of a chairman and 12 other persons, appointed by the Secretary, representing organizations of employers and employees, the self-employed and the public. The Secretary, Donna E Shalala, appointed as Chairman, Edward Gramlich, Dean of the School of Public Policy at the University of Michigan. He and the other members of the Council are listed on page 6 of this report.

When announcing the appointment of the Advisory Council, the Secretary of HHS asked the Council to focus only on the Social Security program, and specifically requested that it examine the program’s long-range financial status, as well as the adequacy and equity of its benefits and the relative roles of the public and private sectors in providing retirement income. Although not stated as such, this charge reflected a general concern about Social Security’s long-range solvency and the growing loss of public confidence in the system.

The Financial Picture

Although currently Social Security’s income exceeds its outgo, its board of trustees projects that over the next 75 years its expenditures will exceed its income on average by 16%. The primary reasons are demographic: an aging post-World War II “baby boom” generation, declining birth rates, and increasing life expectancies are creating an older society. The number of people 65 and older is predicted to nearly double by 2025, whereas the number of workers whose taxes will finance their Social Security benefits is projected to grow by only 17%. As a result, the ratio of

¹There have been 13 Advisory Councils since the beginning of the program, but this is the last. As part of P.L. 103-296, which made the Social Security Administration an independent agency in 1995, Congress created a permanent Advisory Board and abolished future Advisory Councils.

workers to Social Security recipients is projected to fall from 3.2 to 1 today to 2.0 to 1 in 2030².

Excess Social Security revenues are invested in U.S. government securities recorded to the OASDI “trust funds” maintained by the Treasury Department. In April 1997, the trustees projected that the balance of these trust funds would peak at \$2.9 trillion in 2018. However, OASDI spending would begin lagging tax receipts in 2012. At that point general revenues would be needed, first to pay interest on the securities held by the trust funds, and then beginning in 2019 to redeem them. By 2029 the trust funds would be fully depleted and the system would be technically insolvent.

**The Projected Slide
Towards Insolvency**

- *Spending exceeds tax revenues in 2012*
- *OASDI trust funds peak in 2018*
- *OASDI funds insolvent in 2029*

The problem is not unprecedented. In 1977 and 1983, Congress enacted a variety of measures to address financial problems similar to those currently being forecast. Among them were increases in payroll taxes, partial taxation of the benefits received by higher-income recipients, and a gradual increase from 65 to 67 in Social Security’s “full retirement age,” which is the age required to receive full benefits. However, those changes were not sufficient to maintain balance in the system in the latter part of the next century, and this combined with more pessimistic projections of factors such as economic growth, birth rates, and the incidence of disability, has led to the return of long-term deficit forecasts.

Several bills were introduced in the 103rd and 104th Congresses to deal with the issue. Bills in the 103rd included raising the full retirement age to 70, modifying cost-of-living-adjustments (COLAs) and increasing taxes. Several bills in the 104th included privatizing a portion of the program.

The Advisory Council’s Report

The Advisory Council began to meet in 1994. During its deliberations, general agreement was reached on the need to eliminate the long-range deficit, and on some specific measures that would help to reduce program costs. However, no consensus developed on a single approach that would restore long-range solvency. Instead, three different philosophies emerged, each supported by a different faction of the Council. One was based on the premise that as much of the program’s benefits should be preserved as possible, and thus part of the solution should include increases in the payroll tax rate. Another was based on the belief that the system’s cost basically must be held within the current revenue structure, but with mandatory individual savings added on to help provide adequate future retirement income. The third was based on the idea that the system basically is unsustainable without fundamental restructuring,

²See the 1997 Annual Report of the Board of Trustees of the federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Intermediate projections.

and that restructuring should shift more of the role of providing retirement income from Social Security to individual savings.

Eventually three proposals emerged. The first, labeled the “maintain benefits” (MB) plan, supported by six members of the Council, addressed most of the long-range deficit through revenue increases, including a rise in the Social Security payroll tax in 2045, and a small cut in benefits. To close the remaining gap, it recommended that investing part of the Social Security trust funds in the stock market be considered. The second, labeled the “individual account” (IA) plan, supported by two members of the Council, restored financial solvency without increasing the payroll tax but with more significant reductions in benefits, and in addition imposed mandatory employee contributions to individual savings accounts based on the notion that the loss in Social Security benefits should be offset by increased individual savings. The third, labeled the “personal security account” (PSA) plan, supported by five members of the Council, likewise achieves long-range financial balance through a fundamental redesign of the system by gradually replacing a major portion of the retirement program with individual private savings accounts.

The three proposals share some features. All would mandate Social Security coverage of newly hired state and local government employees, increase the taxation of Social Security benefits, reduce initial Social Security benefits by various changes in the benefit formula, and assume that pending revisions in the Consumer Price Index (CPI) will result in COLAs in the future that will be lower by 0.21 percentage points. Both the IA and PSA plans raise the retirement age and modify surviving spouse benefits.

Following is a description of the specific features of each proposal. A side-by-side comparison of the three proposals and current law is in the appendix.

The Maintain Benefits Plan

(Supported by Council Members Ball, Johnson, Jones, Kourpias, Shea, Fierst)

1. All state and local government employees hired after 1997 would be required to participate in Social Security.
2. The number of years of highest earnings used in computing a worker’s basic retirement benefit, the “Primary Insurance Amount” (PIA), would increase from 35 to 36 in 1997, 37 in 1998, and 38 in 1999 and thereafter. (It was suggested as an alternative that the payroll tax be increased in 1998 by 0.15 percentage points on employers and employees, each.)
3. Beginning in 1998, Social Security benefits would be taxable like other contributory pensions, i.e., fully taxable except for the part of the pension attributable to the workers own contributions on which income tax has already been paid. Current law subjects a maximum of 85% of benefits to the income tax, and only if a recipient’s income exceeds certain thresholds. Three-quarters of current recipients pay no income tax on their benefits because their income is under these thresholds. These thresholds would be phased out between 1998

and 2007. Also, all of the revenue generated from the taxation of benefits would go to Social Security (currently, part goes to Medicare).

4. The payroll tax would go up by 0.8 percentage points, on employers and employees, each, in 2045.
5. As a final possible measure, it is urged that an option to invest part of the Social Security trust funds in stocks (in funds indexed to reflect the overall performance of the market) be further studied and evaluated.

The Individual Account Plan

(Supported by Council Members Gramlich, Twinney)

1. All state and local government employees hired after 1997 would be required to participate in Social Security.
2. Social Security benefits would be taxable as in the MB plan, but there is no provision for the redirection of tax revenue from Medicare to Social Security.
3. The increase in the Social Security full retirement age to age 67 would be moved forward to apply to those born in 1949 and later, and further increases in the full retirement age would be tied to further increases in longevity. (Current law phases in the increase from age 65 in two steps, by increasing the age by 2 months for each year that a person is born after 1937, until it reaches age 66 for those born in 1943. After a 12-year pause, the age is increased again by raising the age by 2 months for each year that a person is born after 1954, until it reaches age 67 for those born in 1960 and later.) The proposal eliminates this hiatus in increasing the full retirement age and indexes the full retirement age thereafter (early retirement would still be available, but would be reduced, on an actuarial basis, as the full retirement age rises).
4. Benefits, especially for higher-paid workers, gradually would be reduced (i.e., compared to current law). To do so, the formula for determining the PIA would be modified by gradually lowering the 32% and 15% replacement of earnings factors to 22.4% and 10.5%, respectively, by 2030.³
5. The computation of a retired worker's PIA would by 1999 be based on the highest 38 years of earnings, as described in the MB plan.
6. Beginning in 2000, benefits payable to dependent spouses would be gradually lowered, from 50% to 33% of the worker's PIA by 2016.

³Social Security is designed to replace a higher proportion of earnings for low-paid workers than for high-paid workers. This is done through a formula that calculates the PIA by applying three progressively lower replacement factors (90%, 32%, and 15%) to a worker's average career earnings. For example, for workers attaining age 62 in 1997, the formula is 90% of first \$455 of average indexed monthly earnings (AIME), plus 32% of next \$2,248, plus 15% of AIME over \$2,741.

7. Surviving spouse's benefits for two-earner couples would be augmented by assuring that aged widows and widowers would receive at least 75 % of the Social Security benefits payable to the couple while both were still alive, phased in over 1998 to 2037.
8. Beginning in 1998, workers would mandatorily contribute an additional 1.6 % of their Social Security taxable earnings to individual accounts (IAs) that would be held by the U.S. government. The accumulated funds would not be available to the worker until he or she becomes eligible for retirement, and would be converted to a single or joint minimum guarantee indexed annuity⁴ when the worker elects retirement.

The Personal Security Account Plan

(Supported by Council Members Bok, Combs, Schieber, Vargas, Weaver)

1. For workers under age 55 in 1998, 5 percentage points of the employee share of the Social Security tax would be diverted to personal security accounts (PSAs), which would be invested at the discretion of the worker subject to regulatory restrictions to make sure they were invested in financial instruments widely available in financial markets and that they were held solely for retirement purposes. The accounts would not be available until the worker is age 62, at which point they could be used by the worker for any purpose.
2. For workers participating in the PSAs, Social Security benefits would gradually be reduced. Ultimately, retirement benefits would evolve into two tiers, where the Social Security benefit (Tier 1) would be based solely on length of service (e.g., workers with a minimum of 35 years of coverage would receive the same amount — about \$410 a month in 1996 dollars). The Social Security retirement benefit of workers who are ages 25 to 54 in 1998 would be their accrued benefit under the current system plus a prorated share of the Tier 1 benefit.
3. To finance the transition to the new system, the U.S. Treasury would issue approximately \$2 trillion (in 1996 dollars) in bonds to the public over the next 40 years. The Treasury bonds would be repaid by the excess of tax revenue that is projected to occur in the latter part of the transition period (from about 2035 to 2069).
4. Workers and their employers would pay an additional payroll tax of 0.76%, each, (1.52% combined) over the period 1998-2069.
5. The earnings test would be eliminated gradually over 1998-2002 for individuals who have attained the full retirement age.

⁴I.e., annuities would be indexed to rise with inflation and there would be a guarantee that, if the worker died before or slightly after retirement, some portion of the value of the accrued savings would be payable in all cases. If the worker is married, a joint and survivor annuity must be paid unless the spouse declines it.

6. The full retirement age would increase as in the IA plan, but in addition the age for earliest retirement would increase by the same amount, until it reaches age 65. Thereafter, the early retirement age would remain at age 65, but further increases in the full retirement age (because it would be indexed to rise with increases in longevity) would increase the actuarial reduction applied to early retirement benefits.
7. For persons disabled after 1997, the initial monthly benefit would be reduced by the same factor as that of a worker retiring at age 65 in that year (which means that disabled workers would receive less than the full PIA if the relevant full retirement age is more than age 65), but in no event would they receive less than 70% of the PIA. Disabled workers would continue to convert to the retirement rolls at age 65, when their benefits would be recomputed under the new retirement rules.
8. All state and local government employees hired after 1997 would be required to participate in Social Security.
9. Beginning in 1998, the maximum portion of Social Security benefits subject to taxation would be 50%, and no revenue from the taxation of benefits would go to Medicare. The income thresholds would be phased out over 1998-2007. When Tier 1 Social Security benefits become available, they would be 100% taxable, but withdrawals from the PSA would be tax-free.
10. Social Security surviving spouse benefits would be modified as in the IA plan.

Commission Membership

Edward Gramlich, Dean, School of Public Policy, University of Michigan (Chairman of the Advisory Council).

Robert Ball, Chair of the Board, National Academy of Social Insurance, former Commissioner of Social Security.

Joan Bok, Chairman, New England Electric System.

Ann Combs, Principal, William M. Mercer, Inc.

Edith Fierst, Attorney at Law, Fierst and Moss, P.C.

Gloria Johnson, Director, Dept. of Social Action, International Union of Electronic, Salaried, Machine and Furniture Workers, AFL-CIO.

Thomas Jones, Vice Chairman, President and Chief Operating Officer, Teacher Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF).

George Kourpias, President, International Association of Machinists and Aerospace Workers, AFL-CIO.

Sylvester Schieber, Vice President, Watson Wyatt Worldwide Company.

Gerald Shea, Assistant to the Director for Governmental Affairs, AFL-CIO.

Marc Twinney, Director of Pensions (retired), Ford Motor Co.

Fidel Vargas, Mayor, Baldwin Park, CA.

Carolyn Weaver, Director, Social Security and Pension Issues, American Enterprise Institute (AEI).

Appendix. Comparison of Advisory Council Plans

Feature	Present law	Maintain benefits (MB)	Individual accounts (IA)	Personal security accounts (PSA)
Main Features				
Overview	Pays earnings-related benefits to retired and disabled workers and their families and to survivors of deceased workers; financed by dedicated payroll taxes and income taxes on benefits.	Maintains current benefit structure with some changes in benefits and revenues, and recommends for further study a new investment policy for trust fund reserves.	Scales back benefits to fit within projected revenues. Adds a new government-administered mandatory individual savings plan to supplement the lower future benefits, effective for all workers beginning in 1998.	Evolves to a two-tier system: (1) a flat benefit and (2) a mandatory personal security account (PSA) to be managed by individuals. All workers under 55 in 1998 would have PSAs. The two-tier system would apply fully to workers under age 25 in 1998 (age 62 in 2035).
Financing: deductions from worker's earnings	Social Security tax rate is 6.2% for employers and employees, each.	Increase tax rate by 0.8 percentage points for employers and employees each, in 2045.	Workers would pay an additional 1.6% of covered earnings into individual accounts.	Five percentage points of worker's current payroll tax rate would be redirected into PSAs. Workers and their employers would pay an additional payroll tax of 0.76%, each, over the period 1998-2069.
Financing: borrowing from the public	Not applicable	Not applicable	Not applicable	Transition financed by borrowing approximately \$2 trillion (1996 dollars) over 40 years.
Investment of savings accounts	Not applicable	Not applicable	Worker would allocate funds among a choice of government-administered indexed funds and must hold them until retirement.	Workers would invest in financial instruments widely available in the market. PSAs would be available to worker only at retirement.

Feature	Present law	Maintain benefits (MB)	Individual accounts (IA)	Personal security accounts (PSA)
Trust fund investment policy	Trust funds are invested solely in U.S. government or U.S. government-backed securities.	Recommends for further study that up to 40% of trust fund reserves be invested in private market, phased in 2000-2015. An independent board would select a broad market index for trust fund investment.	No change from present law.	No change from present law.
Generic Changes				
Cost of Living Adjustment (COLA)	Benefits are adjusted each year to rise in proportion to the increase in the consumer price index (CPI) compiled by the Bureau of Labor and Statistics (BLS).	No change in law. Assumes the BLS revision to the CPI will result in COLAs that are lower by -0.21 percentage points.	(Same as MB plan)	(Same as MB plan)
Social Security coverage	States have the option to choose Social Security coverage for State & local government employees.	Mandates that all state and local workers hired after 1997 would be covered by Social Security.	(Same as MB plan)	(Same as MB plan)

Feature	Present law	Maintain benefits (MB)	Individual accounts (IA)	Personal security accounts (PSA)
Old Age Benefits				
Full retirement age (FRA)	FRA will gradually rise from 65 to 66 for those born in 1938 through 1943, remain at 66 for those born in 1944 through 1954, and then gradually rise to 67 for those born in 1955 through 1960 and thereafter.	No change	Accelerates the rise in FRA so it reaches 67 for those born after 1948. Thereafter, indexes FRA to rise with longevity (estimated to be 1 month every 2 years).	Same as IA, except that projected increases in the FRA after reaches age 67 in 2011 would be put into the law, subject to review every 10 years by the Social Security Board of Trustees.
Earliest eligibility age (EEA) for retirement benefits	EEA is 62, with a 20% actuarial reduction, rising to 30% when FRA is 67.	No change	EEA remains 62 and reduction increases beyond 30% as FRA rises beyond age 67.	EEA rises with the FRA. Reduction in Tier 1 benefit at EEA is 20% until EEA reaches 65. Thereafter EEA remains 65 and the reduction increases as FRA rises.
Calculation of average lifetime earnings	Average indexed monthly earnings (AIME) based on highest 35 years.	Lengthen the computation period from 35 to 38 years by 1999.	(Same as MB plan)	For transitional retirement benefits, the computation period would expand to 38 years as the earliest eligibility age rises to 65 (see below), but the associated later date for wage indexing roughly offsets the benefit reduction.

Feature	Present law	Maintain benefits (MB)	Individual accounts (IA)	Personal security accounts (PSA)
Benefit formula	PIA= 90% of first \$455 of AIME, plus 32% of next \$2,248, plus 15% of AIME over \$2,741, for workers reaching 62 in 1997. AIME bend points are adjusted each year to rise in proportion to the growth in average wages.	No change	Gradually lowers the top two percentage rates of the PIA formula from 32% and 15% to 22.4% and 10.5%, respectively. (The 32% and 15% factors are reduced for new eligibles by 0.5% {multiplied by 0.995} each year during 1998-2011, and by 1.5% {multiplied by 0.985} each year during 2012-2030.) The change ultimately lowers basic benefits by 17% for average earners, 22% for high earners, 8% for low earners.	Basic benefit evolves to a flat "Tier 1" amount (\$410 a month in 1996\$ for a worker with 35 or more years of earnings). Workers with 10 years coverage would get half the Tier 1 benefit (prorated if coverage is between 10-35 years). Tier 1 benefit is indexed by wage growth before eligibility and by CPI thereafter. Workers ages 25-54 in 1998 would receive a partial PIA-based benefit for work before 1998.
Income from savings accounts	Not applicable	Not applicable	It is required that IAs would be converted to an inflation-indexed annuity when the worker retires. If married, a joint and survivor annuity would be paid unless spouse declines it.	PSA becomes available at age 62. Worker would use it as he or she chooses.
Treatment of savings account if worker dies before or slightly after retirement	Not applicable	Not applicable	IA would be held for the surviving spouse and be available (in the form of an annuity) at age 60. If no widow(er), IA would become part of the estate. Annuities for workers would have a minimum guarantee to assure that some portion of the value of the accrued savings would be payable in all cases.	Any funds in the PSA at the worker's death would become part of the estate. Surviving spouses would have access to the PSA when he or she reaches age 62.

Feature	Present law	Maintain benefits (MB)	Individual accounts (IA)	Personal security accounts (PSA)
Aged spouse benefit	50% of spouse's PIA, offset by 100% of their own PIA earned as a worker.	No change	Over 2000-2016, gradually lowers aged spouse benefit from 50% to 33% of the worker's PIA.	Higher of 50% of the worker's PIA, or 50% of the full Tier 1 benefit when the system is fully phased in.
Aged surviving spouse benefit	Surviving spouses are eligible for 100% of the deceased spouse's PIA, offset by 100% of their own PIA earned as a worker.	No change	Assures that the surviving spouse benefit is at least 75% of the couple's combined benefits while both were alive.	Same as IA.
Earnings test	Reduces benefits of recipients under age 70 who earn above a certain amount.	No change	No change in application to Social Security benefits. Earnings test would not apply to IA annuities.	Eliminates test at FRA over 1998-2002. Earnings test would not apply to PSA withdrawals.
Disability Insurance (DI) Benefits				
Disability benefit formula	Same as for full retirement benefits at FRA.	No change	Reduction in benefits due to change in replacement rates in the formula used to determine PIAs. (See above.)	DI benefits are calculated under current law PIA formula, but, as the FRA rises, new DI benefits would be reduced to the percent of PIA paid to age-65 retirees (now 100%). In no event would DI benefits be lower than 70% of the PIA.
Treatment of savings accounts for disabled workers	Not applicable	Not applicable	IA would not be available at disability. Funds would remain in the IA and continue to be invested in government administered accounts. No new contributions would be made during disability.	PSA would not be available at disability. Funds would remain in the PSA and continue to be invested by the worker. No new contributions would be made during disability.

Feature	Present law	Maintain benefits (MB)	Individual accounts (IA)	Personal security accounts (PSA)
Benefit at conversion to retirement	Disabled workers shift to retirement benefits at FRA, but their benefit amounts do not change.	No change	Disabled workers would continue to receive basic benefit. IA would become available.	Disabled workers would continue to convert to the retirement rolls at age 65, when their benefits would be recomputed under the new retirement rules and the PSA becomes available.
Benefits for spouses of disabled workers	Non-aged spouses with children under age 16 in care receive 50 % of the worker's PIA, subject to a family maximum.	No change	Beginning in 2000, benefits payable to eligible spouses would be gradually lowered, from 50% to 33% of the worker's PIA, by 2016.	Higher of 50% of the worker's PIA, or 50% of the full Tier 1 benefit when the system is fully phased in.
Young Survivor Benefits				
Benefit Formula	Surviving children and spouse each receive 75% of PIA, subject to a family maximum.	No change	Reduction in benefits due to change in replacement rates in the formula used to determine the worker's PIA. (See above.)	Young survivor benefits would be calculated under the present-law PIA formula.

Feature	Present law	Maintain benefits (MB)	Individual accounts (IA)	Personal security accounts (PSA)
Tax Treatment of Benefits				
Tax treatment of Social Security benefits	Up to 50% of benefits are subject to income tax if income is between certain thresholds (revenues go to Social Security trust funds). However, at higher income levels up to 85% of benefits are taxed (additional revenues go to Medicare's Hospital Insurance (HI) trust fund).	Beginning in 1998, all benefits in excess of employee contributions would be subject to income taxation (i.e., in the same manner prescribed for private and government defined benefit pension plans), and the income thresholds would be phased out over 1998-2007. Redirects benefit taxation revenue from the HI trust fund to the Social Security trust funds (phased-in over 2010-2019).	Same as in MB plan, except no provision for shifting income tax revenues on Social Security benefits from Medicare to Social Security.	Beginning in 1998, 50% of benefits would be subject to tax for recipients, workers over age 54 in 1998, the disabled, and for past service credits for workers over age 24. When Tier 1 benefits become available, they would be 100% taxable. The income thresholds for benefit taxation would be phased out over 1998-2007. Effective in 1998, no revenue from the taxation of benefits would go to Medicare.
Tax treatment of mandated savings	Not applicable	Not applicable	Two options are presented: (1) contributions to IA tax-deductible, withdrawals fully taxable; (2) contributions to IA fully taxable, withdrawals tax-free.	Contributions to the PSA would be fully taxable, the proceeds from PSAs would be tax-free. Investment returns would not be taxed.