

109TH CONGRESS  
1ST SESSION

# H. R. 1776

To reform Social Security by establishing a Personal Social Security Savings Program and to provide new limitations on the Federal Budget.

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## IN THE HOUSE OF REPRESENTATIVES

APRIL 21, 2005

Mr. RYAN of Wisconsin (for himself, Mr. FEENEY, Mr. HENSARLING, Mr. MCHENRY, Mr. BARRETT of South Carolina, Mr. FRANKS of Arizona, and Mrs. NORTHUP) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committees on the Budget and Rules, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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## A BILL

To reform Social Security by establishing a Personal Social Security Savings Program and to provide new limitations on the Federal Budget.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the  
5 “Social Security Personal Savings Guarantee and Pros-  
6 perity Act of 2005”.

1 (b) TABLE OF CONTENTS.—The table of contents is  
 2 as follows:

Sec. 1. Short title and table of contents.

TITLE I—PERSONAL SOCIAL SECURITY INVESTMENT PROGRAM

Sec. 101. Establishment of Personal Social Security Investment Program.

“PART B—PERSONAL SOCIAL SECURITY SAVINGS PROGRAM

“Sec. 251. Definitions.

“Sec. 252. Social Security Personal Savings Fund.

“Sec. 253. Participation in Program.

“Sec. 254. Personal social security savings accounts.

“Sec. 255. Tier I Investment Fund.

“Sec. 256. Tier II Investment Fund.

“Sec. 257. Tier III Investment Options.

“Sec. 258. Personal social security savings annuity and other distributions.

“Sec. 259. Guarantee of promised benefits.

“Sec. 260. Personal Social Security Savings Board.

“Sec. 261. Executive Director.

Sec. 102. Monthly insurance benefits for participating individuals.

Sec. 103. General fund transfers to the Federal Old-Age and Survivors Insurance Trust Fund.

Sec. 104. Tax treatment of accounts.

Sec. 105. Self-Liquidating Social Security Transition Fund.

Sec. 106. Budgetary treatment of social security.

Sec. 107. Dedication of budget surpluses to saving social security.

Sec. 108. Accounting for the Old-Age, Survivors, and Disability Insurance Program and the Personal Social Security Savings Program.

Sec. 109. Reduction of FICA rates resulting from Personal Social Security Savings Program.

TITLE II—PUTTING A LID ON THE FEDERAL BUDGET

Subtitle A—Spending safeguards on the growth of entitlements and  
 mandatories

Sec. 201. Spending caps on growth of entitlements and mandatories.

Sec. 202. Exempt programs and activities.

Sec. 203. Exceptions, limitations, and special rules.

Sec. 204. Point of order.

Sec. 205. Technical and conforming amendments.

Subtitle B—Discretionary spending limits

Sec. 211. Enforcing discretionary spending limits.

1 **TITLE I—PERSONAL SOCIAL SE-**  
2 **CURITY INVESTMENT PRO-**  
3 **GRAM**

4 **SEC. 101. ESTABLISHMENT OF PERSONAL SOCIAL SECU-**  
5 **RITY INVESTMENT PROGRAM.**

6 (a) IN GENERAL.—Title II of the Social Security Act  
7 is amended—

8 (1) by inserting before section 201 the fol-  
9 lowing:

10 **“PART A—INSURANCE BENEFITS”;**

11 and

12 (2) by adding at the end the following new part:

13 **“PART B—PERSONAL SOCIAL SECURITY SAVINGS**  
14 **PROGRAM**

15 **“SEC. 251. DEFINITIONS.**

16 “For purposes of this part—

17 “(1) PARTICIPATING INDIVIDUAL.—The term  
18 ‘participating individual’ has the meaning provided  
19 in section 253(a).

20 “(2) BOARD.—The term ‘Board’ means the  
21 Personal Social Security Savings Board established  
22 under section 260.

23 “(3) EXECUTIVE DIRECTOR.—The term ‘Execu-  
24 tive Director’ means the Executive Director ap-  
25 pointed under section 261.

1           “(4) PERSONAL SOCIAL SECURITY SAVINGS AC-  
2           COUNT.—The term ‘personal social security savings  
3           account’ means an account established under section  
4           254(a).

5           “(5) PERSONAL SOCIAL SECURITY SAVINGS AN-  
6           NUITY.—The term ‘personal social security savings  
7           annuity’ means an annuity approved by the Board  
8           under section 258(b)(3).

9           “(6) SAVINGS FUND.—The term ‘Savings Fund’  
10          means the Social Security Personal Savings Fund  
11          established under section 252.

12          “(7) TIER I INVESTMENT FUND.—The term  
13          ‘Tier I Investment Fund’ means the trust fund cre-  
14          ated under section 255.

15          “(8) TIER II INVESTMENT FUND.—The term  
16          ‘Tier II Investment Fund’ means the trust fund cre-  
17          ated under section 256.

18          “(9) TIER III INVESTMENT OPTION.—The term  
19          ‘Tier III Investment Option’ means an investment  
20          option which is—

21                 “(A) offered by an eligible entity certified  
22                 by the Board under section 257(b); and

23                 “(B) approved by the Board under section  
24                 257(c).

1 **“SEC. 252. SOCIAL SECURITY PERSONAL SAVINGS FUND.**

2 “(a) ESTABLISHMENT OF SAVINGS FUND.—

3 “(1) ESTABLISHMENT.—There is established in  
4 the Treasury of the United States a trust fund to  
5 be known as the ‘Social Security Personal Savings  
6 Fund’.

7 “(2) AMOUNTS IN FUND.—The Savings Fund  
8 shall consist of—

9 “(A) all amounts transferred to or depos-  
10 ited into the Savings Fund under subsection  
11 (b), increased by the total net earnings from in-  
12 vestments of sums in the Savings Fund attrib-  
13 utable to such transferred or deposited  
14 amounts, and reduced by the total net losses  
15 from investments of such sums, and

16 “(B) the reserves held in the Annuity Re-  
17 serves Account established under section  
18 258(b)(3), increased by the total net earnings  
19 from investments of such reserves, and reduced  
20 by the total net losses from investments of such  
21 reserves.

22 “(3) TRUSTEES.—The Board shall serve as  
23 trustees of the Savings Fund.

24 “(4) BUDGET AUTHORITY; APPROPRIATION.—  
25 This part constitutes budget authority in advance of  
26 appropriations Acts and represents the obligation of

1 the Board to provide for the payment of amounts  
2 provided under this part. The amounts held in the  
3 Savings Fund are appropriated and shall remain  
4 available without fiscal year limitation.

5 “(b) DEPOSITS INTO FUND.—

6 “(1) IN GENERAL.—During each calendar year,  
7 the Secretary of the Treasury shall deposit into the  
8 Savings Fund, from amounts held in the Federal  
9 Old-Age and Survivors Insurance Trust Fund, a  
10 total amount equal, in the aggregate, to 100 percent  
11 of the redirected social security contribution for such  
12 calendar year of each individual who is a partici-  
13 pating individual for such calendar year.

14 “(2) TRANSFERS BASED ON ESTIMATES.—

15 “(A) IN GENERAL.—The amounts depos-  
16 ited pursuant to paragraph (1) shall be trans-  
17 ferred in at least weekly payments from the  
18 Federal Old-Age and Survivors Insurance Trust  
19 Fund to the Savings Fund.

20 “(B) DETERMINATION OF AMOUNTS.—The  
21 amounts transferred under subparagraph (A)  
22 shall be determined on the basis of estimates,  
23 made by the Commissioner of Social Security  
24 and certified to the Secretary of the Treasury,  
25 of the wages paid to, and self-employment in-

1           come derived by, participating individuals.  
2           Proper adjustments shall be made in amounts  
3           subsequently transferred to the extent prior es-  
4           timates were in excess of or were less than ac-  
5           tual amounts transferred.

6           “(3) REDIRECTED SOCIAL SECURITY CONTRIBU-  
7           TIONS.—For purposes of paragraph (1)——

8                   “(A) IN GENERAL.—The term ‘redirected  
9                   social security contributions’ means, with re-  
10                   spect to an individual for a calendar year, the  
11                   sum of—

12                           “(i) the product derived by multi-  
13                           plying—

14                                   “(I) the sum of the total wages  
15                                   paid to, and self-employment income  
16                                   derived by, such individual during  
17                                   such calendar year, to the extent such  
18                                   total wages and self-employment in-  
19                                   come do not exceed the base amount  
20                                   for such calendar year; by

21   “(II) the applicable base percent-  
22   age for the calendar year; and

23   “(ii) the product derived by multi-  
24   plying—

1                   “(I) the sum of the total wages  
2                   paid to, and self-employment income  
3                   derived by, such individual during  
4                   such calendar year, to the extent such  
5                   total wages and self-employment in-  
6                   come exceed the base amount (taking  
7                   into account the limits imposed by the  
8                   contribution and benefit base under  
9                   section 230); by

10                   “(II) the applicable supplemental  
11                   percentage for the calendar year.

12                   “(B) BASE AMOUNT.—For purposes of  
13                   subparagraph (A)—

14                   “(i) INITIAL BASE AMOUNT.—The  
15                   base amount for calendar year 2006 is  
16                   \$10,000.

17                   “(ii) ADJUSTMENTS TO BASE  
18                   AMOUNT.—The base amount for any cal-  
19                   endar year after 2006 is the product de-  
20                   rived by multiplying \$10,000 by a frac-  
21                   tion—

22                   “(I) the numerator of which is  
23                   the national average wage index (as  
24                   defined in section 209(k)) for the first  
25                   of the 2 preceding calendar years; and

1                   “(II) the denominator of which is  
2                   the national average wage index (as so  
3                   defined) for 2004.

4                   “(C) APPLICABLE BASE PERCENTAGE.—  
5                   For purposes of subparagraph (A), the applica-  
6                   ble base percentage for a calendar year is—

7                   “(i) for calendar years after 2005 and  
8                   before 2016, 5 percent; and

9                   “(ii) for calendar years after 2015, 10  
10                  percent.

11                  “(D) APPLICABLE SUPPLEMENTAL PER-  
12                  CENTAGE.—For purposes of subparagraph (A),  
13                  the applicable supplemental percentage for a  
14                  calendar year is—

15                  “(i) for calendar years after 2005 and  
16                  before 2016, 2.5 percent; and

17                  “(ii) for calendar years after 2015, 5  
18                  percent.

19                  “(c) AVAILABILITY.—The sums in the Savings Fund  
20                  are appropriated and shall remain available without fiscal  
21                  year limitation—

22                  “(1) to invest funds in the Tier I Investment  
23                  Fund of the Savings Fund and the Tier II Invest-  
24                  ment Fund of the Savings Fund under sections 255  
25                  and 256, respectively;

1           “(2) to transfer into Tier III Investment Op-  
2           tions under section 257;

3           “(3) to make distributions in accordance with  
4           section 258; and

5           “(4) to pay the administrative expenses of the  
6           Board in accordance with subsection (e).

7           “(d) LIMITATIONS ON USE OF FUNDS.—

8           “(1) IN GENERAL.—Sums in the Savings Fund  
9           credited to a participating individual’s personal so-  
10          cial security savings account may not be used for, or  
11          diverted to, purposes other than for the exclusive  
12          benefit of the participating individual or the partici-  
13          pating individual’s beneficiaries under this part.

14          “(2) ASSIGNMENTS.—Sums in the Savings  
15          Fund may not be assigned or alienated and are not  
16          subject to execution, levy, attachment, garnishment,  
17          or other legal process.

18          “(e) PAYMENT OF ADMINISTRATIVE EXPENSES.—  
19          Administrative expenses incurred to carry out this part  
20          shall be paid out of net earnings in the Savings Fund in  
21          conjunction with the allocation of investment earnings and  
22          losses under section 254(c).

23          “(f) LIMITATION.—The sums in the Savings Fund  
24          shall not be appropriated for any purpose other than the

1 purposes specified in this part and may not be used for  
2 any other purpose.

3 **“SEC. 253. PARTICIPATION IN PROGRAM.**

4 “(a) **PARTICIPATING INDIVIDUAL.**—For purposes of  
5 this part, the term ‘participating individual’ means any  
6 individual—

7 “(1)(A) who receives wages in any calendar  
8 year after December 31, 2005, on which there is im-  
9 posed a tax under section 3101(a) of the Internal  
10 Revenue Code of 1986, or

11 “(B) who derives self-employment income for a  
12 taxable year beginning after December 31, 2005, on  
13 which there is imposed a tax under section 1401(a)  
14 of the Internal Revenue Code of 1986,

15 “(2) who is born on or after January 1, 1950,  
16 and

17 “(3) who has not filed an election to renounce  
18 such individual’s status as a participating individual  
19 under subsection (b) or has filed such an election  
20 and has subsequently filed an election to reinstate  
21 such individual’s status as a participating individual  
22 under subsection (c).

23 “(b) **RENUNCIATION OF PARTICIPATION.**—

24 “(1) **IN GENERAL.**—An individual—

1           “(A) who has not attained retirement age  
2           (as defined in section 216(l)(1)), and

3           “(B) with respect to whom no distribution  
4           has been made from amounts credited to the in-  
5           dividual’s personal social security savings ac-  
6           count for the purchase of a personal social se-  
7           curity savings annuity,  
8           may elect, in such form and manner as shall be pre-  
9           scribed in regulations of the Board, to renounce  
10          such individual’s status as a ‘participating indi-  
11          vidual’ for purposes of this part. Upon completion of  
12          the procedures provided for under paragraph (2),  
13          any such individual who has made such an election  
14          shall not be treated as a participating individual  
15          under this part, effective as if such individual had  
16          never been a participating individual. The Board  
17          shall provide for immediate notification of such elec-  
18          tion to the Commissioner of Social Security, the Sec-  
19          retary of the Treasury, and the Executive Director.

20          “(2) PROCEDURE.—The Board shall prescribe  
21          by regulation procedures governing the termination  
22          of an individual’s status as ‘participating individual’  
23          pursuant to an election under this subsection. Such  
24          procedures shall include—

1           “(A) prompt closing of the individual’s per-  
2           sonal social security savings account established  
3           under section 254,

4           “(B) revocation of any benefit credit cer-  
5           tificate assigned to the individual’s personal so-  
6           cial security savings account under section 255,  
7           and

8           “(C) prompt transfer to the Federal Old-  
9           Age and Survivors Insurance Trust Fund as  
10          general receipts of any amount held in the Tier  
11          II Investment Fund of the Savings Fund or  
12          under a Tier III Investment Option pursuant to  
13          section 256 or 257 and credited to such individ-  
14          ual’s personal social security savings account.

15          “(c) REINSTATEMENT OF PARTICIPATION.—

16                 “(1) IN GENERAL.—Any individual who has  
17                 filed an election under subsection (b) to renounce  
18                 such individual’s status as a ‘participating indi-  
19                 vidual’ under this part may elect, in such form and  
20                 manner as shall be prescribed in regulations of the  
21                 Board, to reinstate such status. Such regulations  
22                 shall provide for regular, periodic opportunities for  
23                 the filing of such an election. The Board shall pro-  
24                 vide for immediate notification to the Commissioner

1 of Social Security, the Secretary of the Treasury,  
2 and the Executive Director of such election.

3 “(2) EFFECTIVENESS OF REINSTATEMENT.—

4 An election under this subsection shall be effective  
5 with respect to wages earned, and self-employment  
6 income derived, on the earliest date on which the  
7 Board determines is practicable to make such elec-  
8 tion effective following the date of the filing of the  
9 election. The individual filing the election shall be  
10 treated as becoming a participating individual under  
11 this part on the effective date of the election as if  
12 such individual first met the requirements of sub-  
13 section (a) on such date.

14 “(3) IRREVOCABILITY.—An election under this  
15 subsection shall be irrevocable.

16 **“SEC. 254. PERSONAL SOCIAL SECURITY SAVINGS AC-**  
17 **COUNTS.**

18 “(a) ESTABLISHMENT OF PUBLICLY ADMINISTERED

19 SYSTEM OF PERSONAL SECURITY SAVINGS ACCOUNTS.—

20 As soon as practicable after the later of January 1, 2006,

21 or the date on which an individual becomes a participating

22 individual under this part, the Executive Director shall es-

23 tablish a personal social security savings account for such

24 individual. Such account shall be the means by which

25 amounts held in the Tier I Investment Fund and the Tier

1 II Investment Fund of the Savings Fund under sections  
2 255 and 256 and amounts held under Tier III Investment  
3 Options under section 257 are credited to such individual,  
4 under procedures which shall be established by the Board  
5 by regulation. Each account of a participating individual  
6 shall be identified to such participating individual by  
7 means of the participating individual's social security ac-  
8 count number.

9       “(b) ACCOUNT BALANCE.—The balance in a partici-  
10 pating individual's account at any time is the sum of—

11               “(1) the balance in the Tier I Investment Fund  
12               of the Savings Fund credited to such participating  
13               individual prior to transfer of the credited amount to  
14               the Tier II Investment Fund of the Savings Fund;  
15               plus

16               “(2) the excess of—

17                       “(A) all deposits in the Tier II Investment  
18                       Fund of the Savings Fund credited to such par-  
19                       ticipating individual's personal social security  
20                       savings account, subject to such increases and  
21                       reductions as may result from allocations made  
22                       to and reductions made in the account pursuant  
23                       to subsection (c)(1); over

24                       “(B) amounts paid out of the Tier II In-  
25                       vestment Fund in connection with amounts

1 credited to such participating individual's per-  
2 sonal social security savings account; plus

3 “(3) the excess of—

4 “(A) the deposits in the Tier III Invest-  
5 ment Options credited to such participating in-  
6 dividual's personal social security savings ac-  
7 count, subject to such increases and reductions  
8 as may result from amounts credited to, and re-  
9 ductions made in, the account pursuant to sub-  
10 section (c)(2); over

11 “(B) amounts paid out of the Tier III In-  
12 vestment Options of such participating indi-  
13 vidual.

14 The calculation made under paragraph (3) shall be made  
15 separately for each Tier III Investment Option of the par-  
16 ticipating individual. The Board shall also hold for the  
17 participating individual any benefit credit certificate as-  
18 signed to the participating individual's personal social se-  
19 curity savings account under section 255.

20 “(c) ALLOCATION OF EARNINGS AND LOSSES.—Pur-  
21 suant to regulations which shall be prescribed by the  
22 Board, the Executive Director shall allocate to each per-  
23 sonal social security savings account an amount equal to  
24 the net earnings and net losses from each investment of  
25 sums—

1           “(1) in the Tier I Investment Fund and the  
2 Tier II Investment Fund which are attributable to  
3 sums credited to such account reduced by an appro-  
4 priate share of the administrative expenses paid out  
5 of the net earnings, as determined by the Executive  
6 Director; and

7           “(2) in the Tier III Investment Options which  
8 are attributable to sums credited to such account re-  
9 duced by the administrative expenses paid out of the  
10 net earnings.

11 **“SEC. 255. TIER I INVESTMENT FUND.**

12           “(a) ESTABLISHMENT OF TIER I INVESTMENT  
13 FUND.—

14           “(1) IN GENERAL.—The Savings Fund shall in-  
15 clude a separate fund to be known as the ‘Tier I In-  
16 vestment Fund’.

17           “(2) AMOUNTS IN FUND.—The Tier I Invest-  
18 ment Fund consists of all amounts derived from  
19 payments into the Fund under section 252(b) and  
20 remaining after investment of such amounts under  
21 subsection (b), including additional amounts derived  
22 as income from such investments.

23           “(3) USE OF FUNDS.—The amounts held in the  
24 Fund are appropriated and shall remain available  
25 without fiscal year limitation—

1           “(A) to be held for investment on behalf of  
2           participating individuals under subsection (b),

3           “(B) to pay the administrative expenses re-  
4           lated to the Fund, and

5           “(C) to make transfers from the Fund  
6           under subsection (c)(2).

7           “(b) INVESTMENT OF FUND BALANCE.—For pur-  
8           poses of investment of the Tier I Investment Fund, the  
9           Board shall contract with appropriate professional asset  
10          managers, recordkeepers, and custodians selected for in-  
11          vestment of amounts held in the Fund, so as to provide  
12          for investment of the balance of the Fund, in a manner  
13          providing broad diversification in accordance with regula-  
14          tions of the Board, in—

15                 “(1) insurance contracts,

16                 “(2) certificates of deposit, or

17                 “(3) other instruments or obligations selected  
18          by such asset managers,

19          which return the amount invested and pay interest, at a  
20          specified rate or rates, on that amount during a specified  
21          period of time.

22           “(c) SEPARATE CREDITING TO PERSONAL SOCIAL  
23          SECURITY SAVINGS ACCOUNTS AND TRANSFERS TO THE  
24          TIER II INVESTMENT FUND OR TO TIER III INVESTMENT  
25          OPTIONS.—

1           “(1) CREDITING TO ACCOUNTS.—

2                   “(A) IN GENERAL.—Subject to this para-  
3 graph, the Board shall provide for prompt, sep-  
4 arate crediting, as soon as practicable, of the  
5 amounts deposited in the Tier I Investment  
6 Fund to the personal social security savings ac-  
7 count of each participating individual with re-  
8 spect to the redirected social security contribu-  
9 tions (as defined in section 252(b)(3)) of such  
10 participating individual. The Board shall in-  
11 clude in such crediting, with respect to each  
12 such individual, any increases or decreases in  
13 such amounts so as to reflect the net returns  
14 and losses from investment of the balance of  
15 the Fund prior to such crediting. For purposes  
16 of determining such increases and decreases for  
17 each calendar year, the amounts deposited into  
18 the Fund in connection with such individual  
19 during such calendar year shall be deemed to  
20 have been deposited on June 30 of such year.

21                   “(B) TREATMENT OF MARRIED PARTICI-  
22 PATING INDIVIDUALS.—If the participating in-  
23 dividual is married as of the end of the calendar  
24 year in which the amounts to be credited were  
25 deposited in the Tier I Investment Fund and

1 the spouse is also a participating individual, the  
2 personal social security savings account of the  
3 participating individual and the personal social  
4 security savings account of his or her spouse  
5 shall each be credited with 50 percent of such  
6 amounts.

7 “(2) TRANSFERS FROM THE TIER I INVEST-  
8 MENT FUND.—In accordance with elections filed  
9 with the Board by a participating individual, any  
10 amount credited to the personal social security sav-  
11 ings account of such participating individual under  
12 paragraph (1) shall be promptly transferred to the  
13 Tier II Investment Fund of the Savings Fund for  
14 investment in accordance with section 256 and, to  
15 the extent available under section 257, to Tier III  
16 Investment Options in accordance with section 257.

17 “(d) TREATMENT OF AMOUNTS HELD IN TIER I IN-  
18 VESTMENT FUND.—Subject to this part—

19 “(1) until amounts deposited into the Tier I In-  
20 vestment Fund during any calendar year are cred-  
21 ited to personal social security savings accounts,  
22 such amounts shall be treated as the unallocated  
23 property of all participating individuals with respect  
24 to whom amounts were deposited in the Fund dur-

1 ing such year, jointly held in trust for such partici-  
2 pating individuals in the Savings Fund, and

3 “(2) amounts deposited into the Fund which  
4 are credited to the personal social security savings  
5 account of a participating individual shall be treated  
6 as property of the participating individual, held in  
7 trust for such participating individual in the Savings  
8 Fund.

9 **“SEC. 256. TIER II INVESTMENT FUND.**

10 “(a) ESTABLISHMENT OF TIER II INVESTMENT  
11 FUND.—

12 “(1) IN GENERAL.—The Savings Fund shall in-  
13 clude a separate fund to be known as the ‘Tier II  
14 Investment Fund’.

15 “(2) AMOUNTS IN FUND.—The Tier II Invest-  
16 ment Fund consists of all amounts derived from  
17 payments into the Fund under section 255(c)(2) and  
18 remaining after investment of such amounts under  
19 subsection (b), including additional amounts derived  
20 as income from such investments.

21 “(3) USE OF FUNDS.—The amounts held in the  
22 Fund are appropriated and shall remain available  
23 without fiscal year limitation—

24 “(A) to be held for investment under sub-  
25 section (b),

1           “(B) to pay the administrative expenses re-  
2           lated to the Fund, and

3           “(C) to make transfers to Tier III Invest-  
4           ment Options under section 257 or to make  
5           payments under section 258.

6           “(b) PAYMENTS INTO TIER II INVESTMENT FUND.—

7           “(1) IN GENERAL.—Upon the crediting under  
8           section 252 to the personal social security savings  
9           account of a participating individual of any amount  
10          held in the Tier I Investment Fund for any calendar  
11          year, the Board shall transfer from the Tier I In-  
12          vestment Fund into the Tier II Investment Fund  
13          any amount so credited to such participating individ-  
14          ual’s account which is not transferred to a Tier III  
15          Investment Option pursuant to an election under  
16          section 257(a).

17          “(2) ONGOING SEPARATE CREDITING.—Subject  
18          to this paragraph, the Board shall provide for ongo-  
19          ing separate crediting to each participating individ-  
20          ual’s personal social security savings account of the  
21          amounts deposited in the Tier II Investment Fund  
22          with respect to such participating individual, to-  
23          gether with any increases or decreases therein so as  
24          to reflect the net returns and losses from investment  
25          thereof while held in the Fund.

1 “(c) INVESTMENT ACCOUNTS.—

2 “(1) IN GENERAL.—For purposes of investment  
3 of the Tier II Investment Fund, the Board shall di-  
4 vide the Fund into 6 investment accounts. The  
5 Board shall contract with appropriate investment  
6 managers, recordkeepers, and custodians selected for  
7 investment of amounts held in each investment ac-  
8 count. Such accounts shall consist of—

9 “(A) a Lifecycle Investment Account,

10 “(B) a Government Securities Investment  
11 Account,

12 “(C) a Fixed Income Investment Account,

13 “(D) a Common Stock Index Investment  
14 Account,

15 “(E) a Small Capitalization Stock Index  
16 Investment Account, and

17 “(F) an International Stock Index Invest-  
18 ment Account.

19 “(2) ELECTION OF INVESTMENT OPTIONS.—

20 “(A) DEFAULT INVESTMENT ACCOUNT.—

21 Except as provided in an election in effect  
22 under subparagraph (B), amounts held in the  
23 Tier II Investment Fund shall be credited to  
24 the Lifecycle Investment Account.

1           “(B) ELECTION OF TRANSFERS BETWEEN  
2           INVESTMENT ACCOUNTS.—In any case in which  
3           a participating individual who has an amount in  
4           such individual’s personal social security sav-  
5           ings account credited to any of the investment  
6           accounts in the Tier II Investment Fund files  
7           with the Secretary of the Treasury a written  
8           election under this subparagraph, not more fre-  
9           quently than annually and in accordance with  
10          regulations of the Board, the Secretary of the  
11          Treasury shall transfer the full amount so cred-  
12          ited in such investment account from such in-  
13          vestment account to any one of the other invest-  
14          ment accounts in the Tier II Investment Fund  
15          (whichever is designated in such election).

16          “(d) LIFECYCLE INVESTMENT ACCOUNT.—

17               “(1) IN GENERAL.—The investment manager,  
18               recordkeeper, and custodian selected for investment  
19               of amounts held in the Lifecycle Investment Account  
20               shall invest such amounts under regulations which  
21               shall be prescribed by the Board in a mix of equities  
22               and fixed income instruments so as to ensure, to the  
23               maximum extent practicable, that, of the total bal-  
24               ance in the Fund credited to such account and avail-  
25               able for investment (after allowing for administrative

1 expenses), the percentage invested in fixed income  
2 instruments by individuals in designated cohorts,  
3 ranging in age up to those of at least retirement  
4 age, will increase in a linear progression from 0 per-  
5 cent to 100 percent as the cohort approaches retire-  
6 ment age.

7 “(2) INVESTMENT IN EQUITIES.—In accordance  
8 with regulations which shall be prescribed by the  
9 Board, the Board shall establish standards which  
10 must be met by equities selected for investment in  
11 the Lifecycle Investment Account. In conformity  
12 with such standards, the Board shall select, for pur-  
13 poses of such investment, indices which are com-  
14 prised of equities the aggregate market value of  
15 which is, in each case, a reasonably broad represen-  
16 tation of companies whose shares are traded on the  
17 equity markets. Amounts invested in equities under  
18 an investment option shall be held in a portfolio de-  
19 signed to replicate the performance of one or more  
20 of such indices.

21 “(3) INVESTMENT IN FIXED INCOME INSTRU-  
22 MENTS.—In accordance with regulations which shall  
23 be prescribed by the Board, the Board shall estab-  
24 lish standards which must be met by fixed income  
25 instruments selected for investment in the Lifecycle

1 Investment Account. Such standards shall take into  
2 account the competing considerations of risk and re-  
3 turn. Amounts invested in fixed income instruments  
4 in an investment option shall be held in a portfolio  
5 which shall consist of a diverse range of fixed income  
6 instruments, taking into full account the opposing  
7 considerations of risk and maximization of return.

8 “(e) GOVERNMENT SECURITIES INVESTMENT AC-  
9 COUNT.—

10 “(1) IN GENERAL.—Amounts in the Govern-  
11 ment Securities Investment Account shall be in-  
12 vested in securities of the United States Government  
13 as provided in this subsection

14 “(2) ISSUANCE OF SPECIAL OBLIGATIONS.—  
15 The Secretary of the Treasury is authorized to issue  
16 special interest-bearing obligations of the United  
17 States for purchase by the Tier II Investment Fund  
18 for purposes of investment of amounts in the Gov-  
19 ernment Securities Investment Account. Such obliga-  
20 tions shall have maturities fixed with due regard to  
21 the needs of the Fund as determined by the Board,  
22 and shall bear interest at a rate equal to the average  
23 market yield (computed by the Secretary of the  
24 treasury on the basis of market quotations as of the  
25 end of the calendar month next preceding the date

1 of issue of such obligations) on all marketable inter-  
2 est-bearing obligations of the United States then  
3 forming a part of the public debt which are not due  
4 or callable earlier than 4 years after the end of such  
5 calendar month. Any average market yield computed  
6 under this paragraph which is not a multiple of one-  
7 eighth of 1 percent shall be rounded to the nearest  
8 multiple of one-eighth of 1 percent.

9 “(f) FIXED INCOME INVESTMENT ACCOUNT.—  
10 Amounts in the Fixed Income Investment Account shall  
11 be invested in instruments or obligations which return the  
12 amount invested and pay interest, at a specified rate or  
13 rates, on that amount during a specified period of time,  
14 consisting of instruments or obligations in one or more  
15 of the following categories:

16 “(1) insurance contracts;

17 “(2) certificates of deposit; or

18 “(3) other instruments or obligations selected  
19 by qualified professional asset managers.

20 “(g) COMMON STOCK INDEX INVESTMENT AC-  
21 COUNT.—

22 “(1) PORTFOLIO DESIGN.—Amounts held in the  
23 Common Stock Investment Account shall be invested  
24 in a portfolio of common stock designed to replicate  
25 the performance of the index selected under para-

1 graph (2). The portfolio shall be designed such that,  
2 to the extent practicable, the percentage of the bal-  
3 ance in the Common Stock Index Investment Ac-  
4 count that is invested in each stock is the same as  
5 the percentage determined by dividing the aggregate  
6 market value of all shares of that stock by the ag-  
7 gregate market value of all shares of all stocks in-  
8 cluded in such index.

9 “(2) SELECTION OF INDEX.—The Board shall  
10 select, for purposes of investment of amounts held in  
11 the Common Stock Investment Account, an index  
12 which is a commonly recognized index comprised of  
13 common stock the aggregate market value of which  
14 is a reasonably complete representation of the  
15 United States equity markets.

16 “(h) SMALL CAPITALIZATION STOCK INDEX INVEST-  
17 MENT ACCOUNT.—

18 “(1) PORTFOLIO DESIGN.—Amounts held in the  
19 Small Capitalization Stock Index Investment Ac-  
20 count shall be invested in a portfolio of common  
21 stock designed to replicate the performance of the  
22 index selected under paragraph (2). The portfolio  
23 shall be designed such that, to the extent prac-  
24 ticable, the percentage of the balance in the Small  
25 Capitalization Stock Index Investment Account that

1 is invested in each stock is the same as the percent-  
2 age determined by dividing the aggregate market  
3 value of all shares of that stock by the aggregate  
4 market value of all shares of all stocks included in  
5 such index.

6 “(2) SELECTION OF INDEX.—The Board shall  
7 select, for purposes of investment of amounts held in  
8 the Small Capitalization Stock Index Investment Ac-  
9 count, an index which is a commonly recognized  
10 index comprised of common stock the aggregate  
11 market value of which represents the United States  
12 equity markets excluding the common stocks in-  
13 cluded in the Common Stock Index Investment Ac-  
14 count.

15 “(i) INTERNATIONAL STOCK INDEX INVESTMENT  
16 ACCOUNT.—

17 “(1) PORTFOLIO DESIGN.—Amounts held in the  
18 International Stock Index Investment Account shall  
19 be invested in a portfolio of stock designed to rep-  
20 licate the performance of the index selected under  
21 paragraph (2). The portfolio shall be designed such  
22 that, to the extent practicable, the percentage of the  
23 balance in the International Stock Index Investment  
24 Account that is invested in each stock is the same  
25 as the percentage determined by dividing the aggre-

1       gate market value of all shares of that stock by the  
2       aggregate market value of all shares of all stocks in-  
3       cluded in such index.

4               “(2) SELECTION OF INDEX.—The Board shall  
5       select, for purposes of investment of amounts held in  
6       the International Stock Index Investment Account,  
7       an index which is a commonly recognized index com-  
8       prised of common stock the aggregate market value  
9       of which is a reasonably complete representation of  
10      the international equity markets excluding the  
11      United States equity markets.

12              “(j) ADDITIONAL INVESTMENT OPTIONS.—The  
13      Board may from time to time, as determined by regulation  
14      as appropriate to further the purposes of this section,  
15      shall—

16              “(1) establish investment accounts in the Tier  
17      II Investment Fund meeting the requirements of  
18      this section in addition to those established by this  
19      section, and

20              “(2) terminate investment accounts in the Tier  
21      II Investment Fund established pursuant to para-  
22      graph (1).

23              “(k) DISCLOSURE OF ADMINISTRATIVE COSTS.—The  
24      Board shall provide to each participating individual an an-  
25      nual disclosure of the rate of administrative costs charge-

1 able with respect to investment in each investment account  
2 in the Tier II Investment Fund. Such disclosure shall be  
3 written in a manner calculated to be understood by the  
4 average participating individual.

5 “(1) TREATMENT OF AMOUNTS HELD IN TIER II IN-  
6 VESTMENT FUND.—Subject to this part, amounts depos-  
7 ited into, and held and accounted for in, the Tier II In-  
8 vestment Fund with respect to any participating individual  
9 shall continue to be treated as property of such partici-  
10 pating individual, held in trust for such participating indi-  
11 vidual in the Fund.

12 **“SEC. 257. TIER III INVESTMENT OPTIONS.**

13 “(a) ELECTION OF TIER III INVESTMENT OP-  
14 TIONS.—

15 “(1) IN GENERAL.—A participating individual  
16 may elect to direct transfers from amounts in the  
17 Savings Fund credited to the personal social security  
18 savings account of such individual into 1 or more  
19 Tier III Investment Options in accordance with  
20 paragraph (2).

21 “(2) COMMENCEMENT OF TIER III INVESTMENT  
22 OPTIONS UPON ATTAINMENT OF ELECTION THRESH-  
23 OLD.—In any case in which, as of the end of any  
24 calendar year, the total balance in the Savings Fund  
25 credited to a participating individual’s personal so-

1       cial security savings account exceeds for the first  
2       time the election threshold, the Board shall, by regu-  
3       lation, provide for an opportunity for such partici-  
4       pating individual to make, at any time thereafter,  
5       such individual's first election of one or more of the  
6       Tier III Investment Options for investment of an  
7       amount in the Savings Fund credited to such ac-  
8       count. Such election may be in lieu of or in addition  
9       to investment in the options available with respect to  
10      the Tier II Investment Fund of the Savings Fund.

11           “(3) ALLOCATION OF FUNDS.—In the case of  
12      an election under paragraph (1), funds credited to  
13      the personal social security savings account of the  
14      participating individual and elected for transfer to  
15      one or more Tier III Investment Options shall be  
16      transferred to the Tier III Investment Options so  
17      elected for such calendar year, in percentages speci-  
18      fied in the election by the participating individual for  
19      each applicable portfolio.

20           “(4) ELECTION THRESHOLD.—

21           “(A) IN GENERAL.—Subject to subpara-  
22      graph (B), for purposes of this subsection the  
23      term ‘election threshold’ means an amount  
24      equal to \$25,000.

1           “(B) ADJUSTMENTS.—The Board shall ad-  
2           just annually (effective for annual reporting  
3           months occurring after December 2006) the  
4           dollar amount set forth in subparagraph (A)  
5           under procedures providing for adjustments in  
6           the same manner and to the same extent as ad-  
7           justments are provided for under the proce-  
8           dures used to adjust benefit amounts under sec-  
9           tion 215(i)(2)(A), except that any amount so  
10          adjusted that is not a multiple of \$1.00 shall be  
11          rounded to the nearest multiple of \$1.00.

12          “(5) SUBSEQUENT INVESTMENT OF AMOUNTS  
13          HELD IN TIER III INVESTMENT OPTIONS.—Any  
14          amounts held in one or more Tier III Investment  
15          Options may be—

16                 “(A) transferred at any time to one or  
17                 more other Tier III Investment Options, subject  
18                 to applicable regulations of the Board and the  
19                 terms governing the affected Tier III Invest-  
20                 ment Options, and

21                 “(B) transferred, not more frequently than  
22                 annually, to the Tier II Investment Fund, for  
23                 deposit in the applicable investment account  
24                 then selected by the participating individual  
25                 under section 256.

1 “(b) CERTIFICATION OF ELIGIBLE ENTITIES.—

2 “(1) IN GENERAL.—The Board shall certify eli-  
3 gible entities to offer Tier III Investment Options  
4 under this part.

5 “(2) APPLICATION.—Any eligible entity that de-  
6 sires to be certified by the Board to offer a Tier III  
7 Investment Option shall submit an application to the  
8 Board at such time, in such manner, and containing  
9 such information as the Board may require.

10 “(3) REQUIREMENTS FOR APPROVAL.—The  
11 Board shall not certify an eligible entity unless such  
12 eligible entity agrees to the following requirements:

13 “(A) SEPARATE ACCOUNTING.—Each eligi-  
14 ble entity shall, with respect to each Tier III  
15 Investment Option offered by such eligible enti-  
16 ty to participating individuals—

17 “(i) establish separate accounts for  
18 the contributions of each participating in-  
19 dividual, and any earnings properly allo-  
20 cable to the contributions, and

21 “(ii) maintain separate recordkeeping  
22 with respect to each account.

23 “(B) TREATMENT OF AMOUNTS HELD IN  
24 FUND.—Amounts deposited into, and held and  
25 accounted for in, a Tier III Investment Option

1 with respect to any participating individual  
2 shall be treated as property of such partici-  
3 pating individual, held in trust for such partici-  
4 pating individual.

5 “(C) TRUST REQUIREMENTS.—Amounts  
6 held and accounted for with respect to a partici-  
7 pating individual shall be held in a trust created  
8 or organized in the United States for the exclu-  
9 sive benefit of such individual or his bene-  
10 ficiaries.

11 “(D) EXEMPTION FROM THIRD PARTY  
12 CLAIMS.—Each Tier III Investment Option  
13 shall be exempt from any and all third party  
14 claims against the eligible entity.

15 “(E) DISCLOSURE OF ADMINISTRATIVE  
16 COSTS.—Each eligible entity offering a Tier III  
17 Investment Option under this section shall pro-  
18 vide to each participating individual an annual  
19 disclosure of the rate of administrative costs  
20 chargeable with respect to investment in such  
21 Option. Such disclosure shall be written in a  
22 manner calculated to be understood by the av-  
23 erage participating individual. The Board shall  
24 provide for coordination of disclosures with re-  
25 spect to Tier III Investment Options under this

1           subparagraph so as to assist participating indi-  
2           viduals in comparing alternative Options based  
3           on administrative costs.

4           “(F) REPORTING TO THE EXECUTIVE DI-  
5           RECTOR AND THE BOARD.—Each eligible entity  
6           shall provide reports to the Executive Director  
7           and the Board at such time, in such manner,  
8           and containing such information as the Board  
9           may require.

10          “(4) ELIGIBLE ENTITY DEFINED.—For pur-  
11          poses of this section, the term ‘eligible entity’ means  
12          any investment company (as defined in section 3 of  
13          the Investment Company Act of 1940) or other per-  
14          son that the Board determines appropriate to offer  
15          Tier III Investment Options under this part.

16          “(c) APPROVAL OF TIER III INVESTMENT OP-  
17          TIONS.—

18                 “(1) IN GENERAL.—No funds may be trans-  
19                 ferred into a Tier III Investment Option unless the  
20                 Board has approved an application submitted under  
21                 paragraph (2) with respect to the option.

22                 “(2) APPLICATION.—With respect to each Tier  
23                 III Investment Option that an eligible entity cer-  
24                 tified under subsection (b)(1) seeks to offer, such  
25                 entity shall submit an application to the Board at

1 such time, in such manner, and containing such in-  
2 formation as the Board may require.

3 “(3) QUALIFICATIONS FOR APPROVAL.—The  
4 Board may not approve an application submitted  
5 under paragraph (2) in connection with a Tier III  
6 Investment Option unless the following requirements  
7 are met:

8 “(A) OPTION MUST BE OFFERED BY CER-  
9 TIFIED ELIGIBLE ENTITY.—The Tier III In-  
10 vestment Option is offered by an eligible entity  
11 certified under subsection (b).

12 “(B) OPTION MUST MEET QUALITY FAC-  
13 TORS.—

14 “(i) IN GENERAL.—The Tier III In-  
15 vestment Option meets qualifications which  
16 shall be prescribed by the Board relating  
17 to the quality factors described in clause  
18 (ii).

19 “(ii) QUALITY FACTORS.—The quality  
20 factors described in this clause are—

21 “(I) the safety and soundness of  
22 the Tier III Investment Option’s pro-  
23 posed investment policy;

1                   “(II) the experience and record  
2                   of performance of the proposed invest-  
3                   ment option, if any;

4                   “(III) the experience and record  
5                   of performance of the entity issuing or  
6                   offering such option; and

7                   “(IV) such other factors as the  
8                   Board may determine appropriate.

9           “(d) CONSIDERATIONS FOR CERTIFICATION AND AP-  
10   PROVAL.—In determining whether to certify an eligible en-  
11   tity under subsection (b) or to approve a Tier III Invest-  
12   ment Option under subsection (c), the Board shall—

13                   “(1) act in the best interests of the partici-  
14                   pating individuals;

15                   “(2) base its determination solely on consider-  
16                   ations of balancing safety and soundness of the Tier  
17                   III Investment Option with the maximization of re-  
18                   turns of such option; and

19                   “(3) not base any determination related to the  
20                   entity or option on political or other extraneous con-  
21                   siderations.

22           “(e) SPONSORSHIP OF TIER III INVESTMENT OP-  
23   TIONS BY MEMBERSHIP AND LABOR ORGANIZATIONS.—

24                   “(1) IN GENERAL.—A membership or labor or-  
25                   ganization (as defined by the Board) may sponsor

1 Tier III Investment Options under contracts with el-  
2 ible entities certified under subsection (b) who  
3 shall administer the investment option if such invest-  
4 ment option is approved by the Board under sub-  
5 section (c).

6 “(2) LIMITATION TO MEMBERSHIP.—A mem-  
7 bership or labor organization (as so defined) may  
8 limit to the members of such organization participa-  
9 tion in a Tier III Investment Option sponsored by  
10 such organization.

11 “(f) DISTRIBUTIONS IN CASE OF DEATH.—Upon the  
12 death of a participating individual, the amount of any as-  
13 sets held under a Tier III Investment Option credited to  
14 the personal social security savings account of such indi-  
15 vidual shall be distributed in accordance with section  
16 258(e).

17 **“SEC. 258. PERSONAL SOCIAL SECURITY SAVINGS ANNUITY**  
18 **AND OTHER DISTRIBUTIONS.**

19 “(a) DATE OF INITIAL DISTRIBUTION.—Except as  
20 provided in subsection (e), distributions may be made to  
21 a participating individual from amounts credited to the  
22 personal social security savings account of such individual  
23 only on or after the earliest of—

24 “(1) the date the participating individual at-  
25 tains retirement age (as defined in section 216(l)(1))

1 or, if elected by the individual, early retirement age  
2 (as defined in section 216(l)(2)); or

3 “(2) the date on which the amount credited to  
4 the participating individual’s personal social security  
5 savings account is sufficient to purchase a personal  
6 social security savings annuity with a monthly ben-  
7 efit that is at least equal to the minimum annuity  
8 payment amount (as defined in subsection  
9 (b)(4)(C)(iii)).

10 “(b) PERSONAL SOCIAL SECURITY SAVINGS ANNU-  
11 ITIES.—

12 “(1) NOTICE OF AVAILABLE ANNUITIES.—Not  
13 later than the date determined under subsection (a),  
14 the Board shall notify each participating individual  
15 of—

16 “(A) the most recent listing of personal so-  
17 cial security savings annuities offered by the  
18 Annuity Issuance Authority under paragraph  
19 (2); and

20 “(B) the entitlement of the participating  
21 individual to purchase such an annuity.

22 “(2) ANNUITY ISSUANCE AUTHORITY.—There is  
23 established in the office of the Board an agency  
24 which shall be known as the ‘Annuity Issuance Au-  
25 thority’. The Authority shall provide, in accordance

1 with regulations of the Board, for the issuance of  
2 personal social security savings annuities for pur-  
3 chase from the Authority under this section and to  
4 otherwise administer the issuance of such annuities  
5 in accordance with such regulations.

6 “(3) ANNUITY RESERVES ACCOUNT.—There is  
7 established in the Savings Fund an Annuity Re-  
8 serves Account. The Account shall consist of all  
9 amounts received by the Authority from the pur-  
10 chase of personal social security savings annuities  
11 under this section (plus such amounts as may be  
12 transferred to the Account under paragraph (5)(B)),  
13 increased by the total net earnings from investments  
14 of such reserves under subparagraph (A) of para-  
15 graph (5) and reduced by the total net losses from  
16 investments of such reserves under such subpara-  
17 graph.

18 “(4) PURCHASE OF ANNUITIES.—

19 “(A) SELECTION OF ANNUITY.—On a date  
20 elected by the participating individual, but no  
21 earlier than the date determined under sub-  
22 section (a), a participating individual may pur-  
23 chase a personal social security savings annuity  
24 selected from among the annuities offered by  
25 the Authority under paragraph (2).

1           “(B) TRANSFER OF ASSETS.—Upon the  
2 selection of an annuity by a participating indi-  
3 vidual under subparagraph (A), the Board shall  
4 provide for the transfer of assets, credited to  
5 the personal social security savings account of  
6 the participating individual and held in the Tier  
7 II Investment Fund or under 1 or more Tier  
8 III Investment Options (or any combination  
9 thereof), in a total amount sufficient to pur-  
10 chase the annuity selected by the participating  
11 individual from annuities offered by the Author-  
12 ity.

13           “(C) MINIMUM ANNUITY PAYMENT  
14 AMOUNT.—

15           “(i) IN GENERAL.—Subject to sub-  
16 paragraph (D), if, at the time a personal  
17 social security savings annuity is pur-  
18 chased under subparagraph (A), the assets  
19 credited to the personal social security sav-  
20 ings account of the participating individual  
21 are sufficient to purchase a personal social  
22 security savings annuity offered by the Au-  
23 thority under paragraph (2) with a month-  
24 ly annuity payment that is at least equal  
25 to the minimum annuity payment amount,

1 the amount of the monthly annuity pay-  
2 ment provided by such annuity may not be  
3 less than the minimum annuity payment  
4 amount.

5 “(ii) CONSTRUCTION.—Nothing in  
6 this subparagraph shall be construed to  
7 prohibit a participating individual from  
8 using personal social security savings ac-  
9 count assets to purchase a personal social  
10 security savings annuity offered by the Au-  
11 thority under paragraph (2) which provides  
12 for a monthly payment in excess of the  
13 minimum amount required under clause  
14 (i).

15 “(iii) MINIMUM ANNUITY PAYMENT  
16 AMOUNT DEFINED.—For purposes of this  
17 part, the term ‘minimum annuity payment  
18 amount’ means, as of any date, an amount  
19 equal to the monthly equivalent of 150 per-  
20 cent of the poverty line for an individual  
21 (as in effect on such date), determined  
22 under the poverty guidelines of the Depart-  
23 ment of Health and Human Services  
24 issued under sections 652 and 673(2) of

1 the Omnibus Budget Reconciliation Act of  
2 1981.

3 “(iv) DEEMED TOTAL PART A MONTH-  
4 LY BENEFIT AMOUNT.—For purposes of  
5 clause (iii), the term ‘deemed total part A  
6 monthly benefit amount’ means, with re-  
7 spect to a participating individual, the  
8 total amount which would be payable as  
9 monthly insurance benefits under section  
10 202 for the month in which the partici-  
11 pating individual attains or would attain  
12 early retirement age (as defined in section  
13 216(1)(2)), based on the participating indi-  
14 vidual’s wages and self-employment in-  
15 come, if the participating individual ap-  
16 plied for old-age insurance benefits under  
17 section 202(a) during such month and all  
18 other individuals who would therefore be  
19 eligible for benefits under section 202 for  
20 such month based on such wages and self-  
21 employment income applied for such bene-  
22 fits during such month.

23 “(v) ASSUMPTIONS.—

24 “(I) EARNINGS AND LON-  
25 GEVITY.—In the case of a partici-

1           participating individual with respect to  
2           whom determinations under this sub-  
3           paragraph are made prior to the  
4           month described in clause (iv), the  
5           participating individual's average in-  
6           dexed monthly earnings (within the  
7           meaning of section 215(b)) for such  
8           month shall be projected, under regu-  
9           lations which shall be prescribed by  
10          the Board, on the basis of reasonable  
11          actuarial assumptions, and the Board  
12          shall assume the survival through the  
13          end of such month of all other individ-  
14          uals described in clause (iv).

15                 “(II) PROJECTED INVESTMENT  
16                 RETURNS.—For purposes of making  
17                 actuarial determinations relating to  
18                 the amounts of annuities offered by  
19                 the Authority under this section and  
20                 the amounts necessary for the pur-  
21                 chase of such annuities, the Authority  
22                 shall project returns from the invest-  
23                 ment, in accordance with paragraph  
24                 (5)(A), of the reserves held in the An-  
25                 nuities Reserves Account. The projec-

1                   tion by the Authority of such returns  
2                   shall be made under assumptions of  
3                   long-term average returns of equities  
4                   and fixed income instruments which  
5                   shall be issued annually by the Board  
6                   of Trustees of the Federal Old-Age  
7                   and Survivors Insurance Trust Fund  
8                   and the Federal Disability Insurance  
9                   Trust Fund, based on analysis of his-  
10                  torical market returns.

11                  “(D) PURCHASE OF ANNUITIES IN THE  
12                  EVENT OF INSUFFICIENT ASSETS.—If a partici-  
13                  pating individual desires, or is required under  
14                  subsection (f), to purchase a personal social se-  
15                  curity savings annuity under subsection (b) on  
16                  or after the date determined under subsection  
17                  (a)(1) and the assets of the personal social se-  
18                  curity savings account of such individual are in-  
19                  sufficient to purchase a personal social security  
20                  savings annuity that provides for a monthly  
21                  payment that is at least equal to the minimum  
22                  annuity payment amount (as defined in para-  
23                  graph (4)(C)(iii)), the participating individual  
24                  shall purchase a personal social security savings  
25                  annuity with a monthly payment equal to the

1 maximum amount that the participating indi-  
2 vidual's personal social security savings account  
3 can fund, as determined in accordance with reg-  
4 ulations which shall be prescribed by the Au-  
5 thority, and that otherwise meets the require-  
6 ments of this subsection (including the cost-of-  
7 living protection requirement of subsection  
8 (c)(1)(C)), and the Authority shall provide for  
9 appropriate certification to the Secretary of the  
10 Treasury with respect to the participating indi-  
11 vidual's eligibility for guarantee payments  
12 under section 259.

13 “(5) MAINTENANCE OF RESERVES FOR PAY-  
14 MENT OF ANNUITIES.—

15 “(A) INVESTMENT OF RESERVES.—For  
16 purposes of investment of reserves held in the  
17 Annuity Reserves Account, the Authority shall  
18 contract with appropriate investment managers,  
19 recordkeepers, and custodians selected by the  
20 Authority for investment of such reserves. Such  
21 reserves shall be invested under regulations  
22 which shall be prescribed by the Authority so as  
23 to ensure, to the maximum extent practicable,  
24 that, of the total balance of the reserves (after

1 payment of administrative expenses to such  
2 managers, recordkeepers, and custodians)—

3 “(i) 65 percent is invested in equities  
4 in the same manner and under the same  
5 standards as are provided in section  
6 256(c)(4), and

7 “(ii) 35 percent is invested in fixed in-  
8 come instruments in the same manner and  
9 under the same standards as are provided  
10 in section 256(c)(5).

11 “(B) PROVISION FOR FULL PAYMENT OF  
12 ANNUITIES.—Payment of personal social secu-  
13 rity savings annuities in accordance with the  
14 terms of such annuities shall be made, irrespec-  
15 tive of the sufficiency of reserves in the Annuity  
16 Reserves Fund attributable to funds obtained  
17 from the purchase of such annuities. In the  
18 event of any impending insufficiency in the An-  
19 nuity Reserves Account for the next fiscal year,  
20 the Authority shall certify to the Secretary of  
21 the Treasury the amount of such insufficiency,  
22 and the Secretary of the Treasury shall transfer  
23 from the Federal Old-Age and Survivors Insur-  
24 ance Trust Fund to the Annuity Reserves Ac-  
25 count the amount of the insufficiency, as so cer-

1           tified, in such installments, made prior to or  
2           during such fiscal year, as are necessary to  
3           eliminate in advance such insufficiency.

4           “(c) PERSONAL SOCIAL SECURITY SAVINGS ANNU-  
5   ITY.—

6           “(1) IN GENERAL.—For purposes of this part,  
7           the term ‘personal social security savings annuity’  
8           means an annuity that meets the following require-  
9           ments:

10                   “(A) The annuity starting date (as defined  
11                   in section 72(c)(4) of the Internal Revenue  
12                   Code of 1986) commences on the first day of  
13                   the month beginning after the date of the pur-  
14                   chase of the annuity.

15                   “(B) The terms of the annuity provide—

16                           “(i) for a monthly payment to the  
17                           participating individual during the life of  
18                           the participating individual equal to at  
19                           least the minimum annuity payment  
20                           amount (as defined in subsection  
21                           (b)(4)(C)(iii)), or

22                           “(ii) in the case of an annuity pur-  
23                           chased under subparagraph (D) of sub-  
24                           section (b)(4), the maximum monthly pay-

1           ment determined under regulations pre-  
2           scribed under such subparagraph.

3           “(C) The terms of the annuity include pro-  
4           cedures providing for adjustments in the  
5           amount of the monthly payments in the same  
6           manner and to the same extent as adjustments  
7           are provided for under the procedures used to  
8           adjust benefit amounts under section  
9           215(i)(2)(A). Nothing in this subparagraph  
10          shall be construed to preclude the terms gov-  
11          erning such an annuity from providing for ad-  
12          justments in the amount of monthly payments  
13          resulting in a payment for any month greater  
14          than the payment for that month that would re-  
15          sult from adjustments required under the pre-  
16          ceding sentence (b)(4)(D).

17          “(D) The terms of the annuity include  
18          such other terms and conditions as the Board  
19          requires for the protection of the annuitant.

20          “(2) EXEMPTION FROM THIRD PARTY  
21          CLAIMS.—Each personal social security savings an-  
22          nuity shall be exempt from any and all third party  
23          claims against the issuer.

24          “(d) RIGHT TO USE EXCESS PERSONAL SOCIAL SE-  
25          CURITY SAVINGS ACCOUNT ASSETS.—To the extent assets

1 credited to a participating individual's personal social se-  
2 curity savings account remain after the purchase of an an-  
3 nuity under subsection (b), the remaining assets shall be  
4 payable to the participating individual at such time, in  
5 such manner, and in such amounts as the participating  
6 individual may specify, subject to subsection (f).

7       “(e) DISTRIBUTIONS IN CASE OF DEATH.—If the  
8 participating individual dies before all amounts which are  
9 held in the Tier I Investment Fund or the Tier II Invest-  
10 ment Fund of the Savings Fund or held under a Tier III  
11 Investment Option and which are credited to the personal  
12 social security savings account of the individual are other-  
13 wise distributed in accordance with this section, such  
14 amounts shall be distributed, under regulations which  
15 shall be prescribed by the Board—

16           “(1) in any case in which one or more bene-  
17 ficiaries have been designated in advance, to such  
18 beneficiaries in accordance with such designation as  
19 provided in such regulations, and

20           “(2) in the case of any amount not distributed  
21 as described in paragraph (1), to such individual's  
22 estate.

23       “(f) DATE OF FINAL DISTRIBUTION.—All amounts  
24 credited to the personal social security savings account of  
25 an individual shall be distributed, by means of the pur-

1 chase of annuities or otherwise in a manner consistent  
2 with the requirements of this section, not later than 5  
3 years after the date the individual attains retirement age  
4 (as defined in section 216(l)). The Board shall provide by  
5 regulation for means of distribution necessary to ensure  
6 compliance with the requirements of this subsection.

7 **“SEC. 259. GUARANTEE OF PROMISED BENEFITS.**

8       “(a) IN GENERAL.—If, for any month ending after  
9 the date on which a participating individual attains retire-  
10 ment age (as defined in section 216(l)(1)), the monthly  
11 payment under a participating individual’s personal social  
12 security savings annuity is less than the minimum annuity  
13 payment amount (as defined in section 258(b)(4)(C)(iii)),  
14 adjusted as provided in section 258(c)(1)(C), the Annuity  
15 Issuance Authority shall so certify to the Secretary of the  
16 Treasury and, upon receipt of such certification, such Sec-  
17 retary shall provide to the participating individual, from  
18 amounts in the Federal Old-Age and Survivors Insurance  
19 Trust Fund, a guaranty payment for such month to sup-  
20 plement the personal social security savings annuity and  
21 to guarantee full payment of such individual’s monthly  
22 promised benefits.

23       “(b) GUARANTY PAYMENT.—For purposes of sub-  
24 section (a), a participating individual’s guaranty payment  
25 for any month is equal to the excess of—

1           “(1) the minimum annuity payment amount (as  
2 defined in section 258(b)(4)(C)(iii)), adjusted as  
3 provided in section 258(c)(1)(C); over

4           “(2) the payment for such month of the per-  
5 sonal social security savings annuity purchased by  
6 the participating individual.

7           “(c) PROTECTION OF PART A NORMAL RETIREMENT  
8 BENEFIT LEVELS.—

9           “(1) IN GENERAL.—In any case in which, for  
10 any month ending after the date on which a partici-  
11 pating individual attains retirement age (as defined  
12 in section 216(l)(1))—

13           “(A) such individual’s assumed total nor-  
14 mal retirement part A benefit for such month,  
15 exceeds

16           “(B) the monthly payment payable for  
17 such month under such individual’s personal so-  
18 cial security savings annuity,

19 the Secretary of the Treasury shall pay to such indi-  
20 vidual for such month, from amounts in the Federal  
21 Old-Age and Survivors Insurance Trust Fund, an  
22 additional amount (if any) equal to the excess of the  
23 amount described in subparagraph (A) over the  
24 amount described in subparagraph (B).

1           “(2) DEFINITION.—For purposes of this sub-  
 2           section, the term ‘assumed total normal retirement  
 3           part A benefit’ means, in connection with a partici-  
 4           pating individual, the total amount of monthly insur-  
 5           ance benefits under section 202 based on such indi-  
 6           vidual’s wages and self-employment income (ad-  
 7           justed by taking into account adjustments under sec-  
 8           tion 215(i)) that would have been payable if—

9                       “(A) section 202(z) did not apply, and  
 10                      “(B) such individual applied for old-age in-  
 11                      surance benefits under section 202(a) during  
 12                      the month in which such individual attains re-  
 13                      tirement age (as defined in section 216(l)(1)).

14 **“SEC. 260. PERSONAL SOCIAL SECURITY SAVINGS BOARD.**

15           “(a) ESTABLISHMENT.—There is established in the  
 16           executive branch of the Government a Personal Social Se-  
 17           curity Savings Board.

18           “(b) COMPOSITION.—The Board shall be composed  
 19           of—

20                      “(1) 3 members appointed by the President, of  
 21                      whom 1 shall be designated by the President as  
 22                      Chairman; and

23                      “(2) 2 members appointed by the President, of  
 24                      whom—

1           “(A) 1 shall be appointed by the President  
2           after taking into consideration the recommenda-  
3           tion made by the Speaker of the House of Rep-  
4           resentatives in consultation with the Minority  
5           Leader of the House of Representatives; and

6           “(B) 1 shall be appointed by the President  
7           after taking into consideration the recommenda-  
8           tion made by the Majority Leader of the Senate  
9           in consultation with the Minority Leader of the  
10          Senate.

11          “(c) ADVICE AND CONSENT.—Appointments under  
12          subsection (b) shall be made by and with the advice and  
13          consent of the Senate.

14          “(d) MEMBERSHIP REQUIREMENTS.—Members of  
15          the Board shall have substantial experience, training, and  
16          expertise in the management of financial investments and  
17          pension benefit plans.

18          “(e) LENGTH OF APPOINTMENTS.—

19                  “(1) TERMS.—A member of the Board shall be  
20                  appointed for a term of 4 years, except that of the  
21                  members first appointed under subsection (b)—

22                          “(A) the Chairman shall be appointed for  
23                          a term of 4 years;

1           “(B) the members appointed under sub-  
2           section (b)(2) shall be appointed for terms of 3  
3           years; and

4           “(C) the remaining members shall be ap-  
5           pointed for terms of 2 years.

6           “(2) VACANCIES.—

7           “(A) IN GENERAL.—A vacancy on the  
8           Board shall be filled in the manner in which the  
9           original appointment was made and shall be  
10          subject to any conditions that applied with re-  
11          spect to the original appointment.

12          “(B) COMPLETION OF TERM.—An indi-  
13          vidual chosen to fill a vacancy shall be ap-  
14          pointed for the unexpired term of the member  
15          replaced.

16          “(3) EXPIRATION.—The term of any member  
17          shall not expire before the date on which the mem-  
18          ber’s successor takes office.

19          “(f) DUTIES.—The Board shall—

20                 “(1) administer the program established under  
21                 this part;

22                 “(2) establish policies for the investment and  
23                 management of the Savings Fund, including the  
24                 Tier I Investment Fund and the Tier II Investment  
25                 Fund, and amounts held under Tier III Investment

1 Options, including policies applicable to the asset  
2 managers, recordkeepers, and custodians with re-  
3 sponsibility for managing the investment of amounts  
4 credited to personal social security investment ac-  
5 counts, and for the management and operation of  
6 personal social security savings annuities, which  
7 shall provide for—

8 “(A) prudent investments suitable for ac-  
9 cumulating funds for payment of retirement in-  
10 come;

11 “(B) sound management practices; and

12 “(C) low administrative costs;

13 “(3) review the performance of investments  
14 made for the Tier I Investment Fund and the Tier  
15 II Investment Fund;

16 “(4) review the performance of investments  
17 made under Tier III Investment Options;

18 “(5) review the management and operation of  
19 personal social security savings annuities;

20 “(6) review and approve the budget of the  
21 Board; and

22 “(7) comply with the fiduciary requirements of  
23 part 4 of subtitle B of title I of the Employee Re-  
24 tirement Income Security Act of 1974 (relating to fi-  
25 duciary responsibility) in connection with any exer-

1       cise of discretion in connection with the assets of the  
2       Savings Fund.

3       “(g) ADMINISTRATIVE PROVISIONS.—

4             “(1) IN GENERAL.—The Board may—

5                 “(A) adopt, alter, and use a seal;

6                 “(B) except as provided in paragraph (4),  
7       direct the Executive Director to take such ac-  
8       tion as the Board considers appropriate to  
9       carry out the provisions of this part and the  
10      policies of the Board in accordance with delega-  
11      tions under this part;

12                “(C) upon the concurring votes of 4 mem-  
13      bers, remove the Executive Director from office  
14      for good cause shown;

15                “(D) provide to the Executive Director  
16      such resources as are necessary to carry out the  
17      duties of the Executive Director; and

18                “(E) take such other actions as may be  
19      necessary to carry out the functions of the  
20      Board.

21             “(2) MEETINGS.—The Board shall meet—

22                 “(A) not less than once during each  
23      month; and

24                 “(B) at additional times at the call of the  
25      Chairman.

1           “(3) EXERCISE OF POWERS.—

2                   “(A) IN GENERAL.—Except as provided in  
3 paragraph (1)(C), the Board shall perform the  
4 functions and exercise the powers of the Board  
5 on a majority vote of a quorum of the Board.  
6 Three members of the Board shall constitute a  
7 quorum for the transaction of business.

8                   “(B) VACANCIES.—A vacancy on the  
9 Board shall not impair the authority of a  
10 quorum of the Board to perform the functions  
11 and exercise the powers of the Board.

12           “(4) LIMITATIONS ON INVESTMENTS.—The  
13 Board may not direct any person to invest or to  
14 cause to be invested any sums in the Tier II Invest-  
15 ment Fund or any personal social security invest-  
16 ment account in a specific asset or to dispose of or  
17 cause to be disposed of any specific asset of such  
18 Fund or any such account.

19           “(h) COMPENSATION.—

20                   “(1) IN GENERAL.—Each member of the Board  
21 who is not an officer or employee of the Federal  
22 Government shall be compensated at the daily rate  
23 of basic pay for level IV of the Executive Schedule  
24 for each day during which such member is engaged  
25 in performing a function of the Board.

1           “(2) EXPENSES.—A member of the Board shall  
2           be paid travel, per diem, and other necessary ex-  
3           penses under subchapter I of chapter 57 of title 5,  
4           United States Code, while traveling away from such  
5           member’s home or regular place of business in the  
6           performance of the duties of the Board.

7           “(3) SOURCE OF FUNDS.—Payments authorized  
8           under this subsection shall be paid from the Tier I  
9           Investment Fund or the Tier II Investment Fund,  
10          as determined appropriate by the Board.

11          “(i) DISCHARGE OF RESPONSIBILITIES.—The mem-  
12          bers of the Board shall discharge their responsibilities  
13          solely in the interest of the participating individuals and  
14          their beneficiaries under this part.

15          “(j) ANNUAL INDEPENDENT AUDIT.—The Board  
16          shall annually engage an independent qualified public ac-  
17          countant to audit the activities of the Board.

18          “(k) SUBMISSION OF BUDGET TO CONGRESS.—The  
19          Board shall prepare and submit to the President, and, at  
20          the same time, to the appropriate committees of Congress,  
21          an annual budget of the expenses and other items relating  
22          to the Board which shall be included as a separate item  
23          in the budget required to be transmitted to Congress  
24          under section 1105 of title 31, United States Code.

1       “(1) SUBMISSION OF LEGISLATIVE RECOMMENDA-  
2 TIONS.—The Board may submit to the President, and, at  
3 the same time, shall submit to each House of Congress,  
4 any legislative recommendations of the Board relating to  
5 any of its functions under this part or any other provision  
6 of law.

7 **“SEC. 261. EXECUTIVE DIRECTOR.**

8       “(a) APPOINTMENT OF EXECUTIVE DIRECTOR.—The  
9 Board shall appoint, without regard to the provisions of  
10 law governing appointments in the competitive service, an  
11 Executive Director by action agreed to by a majority of  
12 the members of the Board.

13       “(b) DUTIES.—The Executive Director shall, as de-  
14 termined appropriate by the Board—

15               “(1) carry out the policies established by the  
16 Board;

17               “(2) invest and manage the Tier I Investment  
18 Fund and the Tier II Investment Fund in accord-  
19 ance with the investment policies and other policies  
20 established by the Board;

21               “(3) administer the provisions of this part re-  
22 lating to the Tier I Investment Fund and the Tier  
23 II Investment Fund; and

24               “(4) prescribe such regulations (other than reg-  
25 ulations relating to fiduciary responsibilities) as may

1 be necessary for the administration of this part re-  
2 lating to the Tier I Investment Fund and the Tier  
3 II Investment Fund.

4 “(c) ADMINISTRATIVE AUTHORITY.—The Executive  
5 Director may, within the scope of the duties of the Execu-  
6 tive Director as determined by the Board—

7 “(1) appoint such personnel as may be nec-  
8 essary to carry out the provisions of this part relat-  
9 ing to the Tier I Investment Fund and the Tier II  
10 Investment Fund;

11 “(2) subject to approval by the Board, procure  
12 the services of experts and consultants under section  
13 3109 of title 5, United States Code;

14 “(3) secure directly from an Executive agency,  
15 the United States Postal Service, or the Postal Rate  
16 Commission any information necessary to carry out  
17 the provisions of this part and the policies of the  
18 Board relating to the Tier I Investment Fund and  
19 the Tier II Investment Fund;

20 “(4) make such payments out of sums in the  
21 Tier I Investment Fund and the Tier II Investment  
22 Fund as the Executive Director determines, in ac-  
23 cordance with regulations of the Board, are nec-  
24 essary to carry out the provisions of this part and  
25 the policies of the Board;

1           “(5) pay the compensation, per diem, and travel  
2 expenses of individuals appointed under paragraphs  
3 (1), (2), and (6) from the Tier I Investment Fund  
4 or the Tier II Investment Fund, in accordance with  
5 regulations of the Board;

6           “(6) accept and use the services of individuals  
7 employed intermittently in the Government service  
8 and reimburse such individuals for travel expenses,  
9 authorized by section 5703 of title 5, United States  
10 Code, including per diem as authorized by section  
11 5702 of such title;

12           “(7) except as otherwise expressly prohibited by  
13 law or the policies of the Board, delegate any of the  
14 Executive Director’s functions to such employees  
15 under the Board as the Executive Director may des-  
16 ignate and authorize such successive redelegations of  
17 such functions to such employees under the Board  
18 as the Executive Director may consider to be nec-  
19 essary or appropriate; and

20           “(8) take such other actions as are appropriate  
21 to carry out the functions of the Executive Direc-  
22 tor.”.

23           (b) EFFECTIVE DATE.—The amendments made by  
24 this section shall apply with respect to wages paid after  
25 December 31, 2005, for pay periods ending after such

1 date and self-employment income for taxable years begin-  
2 ning after such date.

3 **SEC. 102. MONTHLY INSURANCE BENEFITS FOR PARTICI-  
4 PATING INDIVIDUALS.**

5 Section 202 of the Social Security Act (42 U.S.C.  
6 402) is amended by adding at the end the following new  
7 subsection:

8 “Benefits for Participants Under Part B

9 “(z)(1) Notwithstanding the preceding provisions of  
10 this section—

11 “(A) a participating individual under the Per-  
12 sonal Social Security Savings Accounts Program  
13 under part B shall not be entitled to old-age insur-  
14 ance benefits under subsection (a); and

15 “(B) except as provided in paragraph (2), no  
16 individual shall be entitled to benefits under this sec-  
17 tion on the basis of the wages and self-employment  
18 income of such a participating individual.

19 “(2) In the case of any such participating individual  
20 who dies before such individual purchases a personal social  
21 security savings annuity under section 258, paragraph  
22 (1)(B) shall not apply with respect to child’s insurance  
23 benefits under subsection (d), widow’s insurance benefits  
24 under subsection (e), widower’s insurance benefits under  
25 subsection (f), mother’s and father’s insurance benefits

1 under subsection (g), and parent's insurance benefits  
2 under subsection (h).”.

3 **SEC. 103. GENERAL FUND TRANSFERS TO THE FEDERAL**  
4 **OLD-AGE AND SURVIVORS INSURANCE TRUST**  
5 **FUND.**

6 (a) RECAPTURE OF CORPORATE TAX ON ACCOUNT  
7 YIELDS.—

8 (1) IN GENERAL.—Section 201 of the Social  
9 Security Act (42 U.S.C. 401) is amended by adding  
10 at the end the following new subsection:

11 “Recapture of Corporate Tax on Yields From Personal  
12 Social Security Savings Account Investments

13 “(o) The Secretary of the Treasury, in consultation  
14 with the Personal Social Security Savings Board, shall es-  
15 timate and transfer to the Federal Old-Age and Survivors  
16 Insurance Trust Fund within 3 months after the end of  
17 each fiscal year an amount equal to the recapture amount  
18 for such fiscal year. For purposes of the preceding sen-  
19 tence, the recapture amount for any fiscal year shall be  
20 equal to the amount of corporate tax receipts under the  
21 Internal Revenue Code of 1986 deposited in the Treasury  
22 for that fiscal year which are attributable to personal so-  
23 cial security savings account investments under part B of  
24 this title.”.

1           (2) EFFECTIVE DATE.—The amendment made  
2           by paragraph (1) shall apply with respect to fiscal  
3           years beginning after September 30, 2005.

4           (3) INITIAL ASSUMPTIONS.—In determining the  
5           recapture amount under section 201(o) of the Social  
6           Security Act (added by paragraph (1)) for fiscal  
7           years 2006 and 2007, the Secretary of the Treasury  
8           shall make the following assumptions concerning the  
9           total amount of taxable capital in the United States  
10          represented by the total assets held by personal so-  
11          cial security savings accounts established under part  
12          B of title II of the Social Security Act:

13                 (A) 80 percent of such total assets are a  
14                 net addition to national investments.

15                 (B) Of the amount described in subpara-  
16                 graph (A), 90 percent will be invested in the  
17                 United States and subject to taxation under the  
18                 Internal Revenue Code of 1986.

19                 (C) Of the amount described in subpara-  
20                 graph (B), 95 percent will be subject to the  
21                 Federal corporate tax.

22                 (D) The amount described in subpara-  
23                 graph (C) is subject to the statutory tax rate of  
24                 35 percent (resulting in an effective corporate

1 tax rate of 23.9 percent on the earnings of all  
2 such total assets).

3 (b) RECAPTURE OF GOVERNMENT SAVINGS OVER  
4 BASELINE.—

5 (1) IN GENERAL.—Section 201 of the Social  
6 Security Act (as amended by subsection (a)) is  
7 amended further by adding at the end the following  
8 new subsection:

9 “Recapture of Government Savings Over Baseline

10 “(p)(1) IN GENERAL.—The Secretary of the Treas-  
11 ury, in consultation with the Personal Social Security Sav-  
12 ings Board, shall estimate and transfer to the Federal  
13 Old-Age and Survivors Insurance Trust Fund within 3  
14 months after the end of each fiscal year an amount equal  
15 to the spending reductions amount for such fiscal year.  
16 For purposes of the preceding sentence, the spending re-  
17 ductions amount shall be an amount equal to—

18 “(A) for any fiscal year in the period beginning  
19 with fiscal year 2006 and ending with fiscal year  
20 2013, the excess of—

21 “(i) 20 percent of the gross domestic prod-  
22 uct (as determined by the Congressional Budget  
23 Office) for the fiscal year for which the deter-  
24 mination is made; over

25 “(ii) the product of—

1                   “(I) 20 percent of the gross domestic  
2                   product (as so determined) for the fiscal  
3                   year for which the determination is made;  
4                   and

5                   “(II) 0.99, factored a number of times  
6                   equal to the number of fiscal years during  
7                   such period which end with or before the  
8                   fiscal year for which the determination is  
9                   made; and

10                  “(B) for any fiscal year beginning after fiscal  
11                  year 2013 and ending with the termination year—

12                   “(i) the amount determined under sub-  
13                   paragraph (A) for fiscal year 2013; increased  
14                   by

15                   “(ii) the rate of growth of the gross domes-  
16                   tic product (as so determined) over the period  
17                   beginning with fiscal year 2014 and ending  
18                   with the fiscal year for which the determination  
19                   is made.

20                  “(2) ACCOMMODATION FOR LOW OASDI BALANCE  
21                  RATIO.—Notwithstanding paragraph (1)(B), in any case  
22                  in which the OASDI trust fund ratio is less than 125 per-  
23                  cent as of the end of the fiscal year preceding each fiscal  
24                  year during any period of 1 or more fiscal years referred

1 to in paragraph (1)(B) and preceding the termination  
2 year—

3 “(A) the spending reductions amount for each  
4 fiscal year during such period shall be the excess  
5 of—

6 “(i) 20 percent of the gross domestic prod-  
7 uct (as projected by the Department of Com-  
8 merce) for the fiscal year for which the deter-  
9 mination is made; over

10 “(ii) the product of—

11 “(I) 20 percent of the gross domestic  
12 product (as so projected) for the fiscal year  
13 for which the determination is made; and

14 “(II) 0.99, factored a number of times  
15 equal to the number of fiscal years during  
16 such period which end with or before the  
17 fiscal year for which the determination is  
18 made plus the number of fiscal years dur-  
19 ing the period described in paragraph  
20 (1)(A), and

21 “(B) paragraph (1)(B) shall apply with respect  
22 to subsequent fiscal years by substituting for the  
23 reference, in paragraph (1)(B)(i), to fiscal year 2013  
24 a reference to the last fiscal year in such period.

1       “(3) TERMINATION YEAR.—For purposes of para-  
2 graph (1)(B), the ‘termination year’ is the first fiscal year,  
3 after fiscal year 2013—

4           “(A) for which the OASDI trust fund ratio is  
5 at least 125 percent; and

6           “(B) on the last day of which there are no out-  
7 standing transition obligations of the Self-Liqui-  
8 dating Social Security Transition Fund under sec-  
9 tion 262.

10       “(4) OASDI TRUST FUND RATIO.—In paragraph  
11 (2)(A), the term ‘OASDI trust fund ratio’ means, for a  
12 fiscal year, the ratio (expressed as a percentage) of—

13           “(A) the combined balance in the Federal Old-  
14 Age and Survivors Insurance Trust Fund and the  
15 Federal Disability Insurance Trust Fund, as of the  
16 last day of such fiscal year; over

17           “(B) the amount estimated by the Commis-  
18 sioner of Social Security to be the total amount to  
19 be paid from such Trust Funds during the fiscal  
20 year following such fiscal year for all purposes au-  
21 thorized by this section (excluding any transfer pay-  
22 ments between such Trust Funds and reducing the  
23 amount of any transfer to the Railroad Retirement  
24 Account by the amount of any transfers into either  
25 such Trust Fund from such Account).”.

1           (2) EFFECTIVE DATE.—The amendment made  
2           by paragraph (1) shall apply with respect to fiscal  
3           years beginning after September 30, 2005.

4 **SEC. 104. TAX TREATMENT OF ACCOUNTS.**

5           (a) IN GENERAL.—

6           (1) IN GENERAL.—Subchapter F of chapter 1  
7           of the Internal Revenue Code of 1986 (relating to  
8           exempt organizations) is amended by adding at the  
9           end the following new part:

10           **“PART IX—PERSONAL SOCIAL SECURITY**  
11                                   **SAVINGS PROGRAM**

“Sec. 530A. Personal social security savings program.

12 **“SEC. 530A. PERSONAL SOCIAL SECURITY SAVINGS PRO-**  
13                                   **GRAM.**

14           “(a) GENERAL RULE.—The Social Security Personal  
15 Savings Fund and each Tier III Investment Option are  
16 exempt from taxation under this subtitle. Notwithstanding  
17 the preceding sentence, sums in a personal social security  
18 savings account which are attributable to a Tier III Op-  
19 tion shall be subject to the taxes imposed by section 511  
20 (relating to imposition of tax on unrelated business income  
21 of charitable, etc. organizations).

22           “(b) DISTRIBUTIONS.—

23           “(1) IN GENERAL.—Any qualified distribution  
24           from—

1           “(A) amounts credited to a personal social  
2           security savings account from the Social Secu-  
3           rity Personal Savings Fund or attributable to a  
4           Tier III Investment Option, or

5           “(B) a personal social security savings an-  
6           nuity,

7           shall not be included in the gross income of the dis-  
8           tributee.

9           “(2) QUALIFIED DISTRIBUTION.—For purposes  
10          of paragraph (1), the term ‘qualified distribution’  
11          means a distribution which meets the requirements  
12          of section 258 of the Social Security Act and which  
13          is not a guaranty payment (as defined by section  
14          259 of such Act).

15          “(c) DEFINITIONS.—For purposes of this section—

16               “(1) PERSONAL SOCIAL SECURITY SAVINGS AC-  
17               COUNT.—The term ‘personal social security savings  
18               account’ means an account established under section  
19               254(a) of the Social Security Act.

20               “(2) PERSONAL SOCIAL SECURITY SAVINGS AN-  
21               NUITY.—The term ‘personal social security savings  
22               annuity’ means an annuity approved by the Personal  
23               Social Security Savings Board under section  
24               258(b)(3) of the Social Security Act.

1           “(3) SOCIAL SECURITY PERSONAL SAVINGS  
2 FUND.—The term ‘Social Security Personal Savings  
3 Fund’ means the Savings Fund established under  
4 section 252 of the Social Security Act.

5           “(4) TIER III INVESTMENT OPTION.—The term  
6 ‘Tier III Investment Option’ has the meaning given  
7 such term by section 251(9) of the Social Security  
8 Act.

9           “(d) ESTATE TAX TREATMENT.—No amount shall be  
10 includible in the gross estate of any individual for pur-  
11 poses of chapter 11 by reason of an interest in the Tier  
12 I Investment Fund or the Tier II Investment Fund of the  
13 Savings Fund or held under a Tier III Investment Option  
14 and which is credited to the personal social security sav-  
15 ings account of the individual.”.

16           (2) CONFORMING AMENDMENT.—Section  
17 86(d)(1)(A) of such Code is amended by inserting  
18 “part A of” after “under”.

19           (3) CLERICAL AMENDMENT.—The table of  
20 parts for subchapter F of chapter 1 of such Code is  
21 amended by adding after the item relating to part  
22 VIII the following new item:

“PART IX. PERSONAL SOCIAL SECURITY SAVINGS PROGRAM”.

23           (b) GUARANTY PAYMENTS.—Paragraph (1) of sec-  
24 tion 86(d) of the Internal Revenue Act of 1986, as amend-  
25 ed by subsection (b), is amended by striking “or” at the

1 end of subparagraph (A), by striking the period and in-  
2 serting “, or” at the end of subparagraph (B), and by  
3 adding at the end the following new subparagraph:

4                   “(C) a guaranty payment under section  
5                   259(a), and a payment of an additional amount  
6                   under section 259(c), of the Social Security  
7                   Act.”.

8           (c) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to taxable years beginning after  
10 December 31, 2005.

11 **SEC. 105. SELF-LIQUIDATING SOCIAL SECURITY TRANSI-**  
12 **TION FUND.**

13           Part B of title II of the Social Security Act (as added  
14 by section 101 of this Act) is amended by adding at the  
15 end the following new section:

16 **“SEC. 262. SELF-LIQUIDATING SOCIAL SECURITY TRANSI-**  
17 **TION FUND.**

18           “(a) ESTABLISHMENT.—There is hereby created on  
19 the books of the Treasury of the United States a trust  
20 fund to be known as the Self-Liquidating Social Security  
21 Transition Fund (in this section referred to as the ‘Transi-  
22 tion Fund’).

23           “(b) BOARD OF TRUSTEES.—

24                   “(1) ESTABLISHMENT.—With respect to the  
25           Transition Fund, there is hereby created a body to

1 be known as the Board of Trustees of the Transition  
2 Fund (in this section referred to as the ‘Board of  
3 Trustees’) composed of the Commissioner of Social  
4 Security, the Secretary of the Treasury, and the  
5 members of the Personal Social Security Savings  
6 Board.

7 “(2) DUTIES.—The Board of Trustees shall—

8 “(A) provide for the issuance of obligations  
9 by the Transition Fund pursuant to subsection  
10 (c),

11 “(B) provide for the receipt and manage-  
12 ment of amounts paid into the Transition Fund  
13 pursuant to subsection (d),

14 “(C) use all funds paid into the Transition  
15 Fund to redeem obligations issued under sub-  
16 section (c) as soon as practicable,

17 “(D) report to Congress not later than the  
18 first day of April of each year on the operation  
19 and status of the Transition Fund during the  
20 preceding fiscal year and on its expected oper-  
21 ation and status during the current fiscal year  
22 and the next 2 fiscal years, and

23 “(E) review the general policies followed in  
24 managing the Transition Fund, and recommend  
25 changes in such policies, including necessary

1 changes in the provisions of law which govern  
2 the way in which the Transition Fund is to be  
3 managed.

4 “(3) MEETINGS.—The Board of Trustees shall  
5 meet not less frequently than once each calendar  
6 year.

7 “(c) ISSUANCE OF TRANSITION FUND BONDS.—

8 “(1) ISSUANCE.—

9 “(A) IN GENERAL.—The purposes for  
10 which obligations of the United States may be  
11 issued under chapter 31 of title 31, United  
12 States Code, are hereby extended to authorize  
13 the issuance at par of public-debt obligations by  
14 the Transition Fund.

15 “(B) REQUIRED ISSUANCE.—Beginning on  
16 January 1, 2006, whenever any obligation held  
17 in the Federal Old-Age and Survivors Insurance  
18 Trust Fund or the Federal Disability Insurance  
19 Trust Fund is repaid from the general fund of  
20 the Treasury to either of such Trust Funds, the  
21 Transition Fund shall issue an obligation under  
22 this subsection in an amount equal to the  
23 amount of interest and principal so repaid.

24 “(C) TRANSFER OF PROCEEDS TO GEN-  
25 ERAL FUND OF THE TREASURY.—Proceeds

1 from the issuance of any obligation issued  
2 under this section shall be transferred to the  
3 general fund of the Treasury.

4 “(D) ACCOUNTING.—The debt owed on  
5 any obligation issued under this section shall be  
6 considered to be debt of the Transition Fund  
7 and shall be accounted for in such manner.

8 “(2) MATURITIES AND INTEREST RATE.—Such  
9 obligations issued by the Transition Fund for pur-  
10 chase by the public shall have maturities fixed with  
11 due regard for the needs of the Transition Fund and  
12 shall bear interest at a rate equal to the average  
13 market yield (computed by the Secretary of the  
14 Treasury on the basis of market quotations as of the  
15 end of the calendar month next preceding the date  
16 of such issue) on all marketable interest-bearing ob-  
17 ligations of the United States then forming a part  
18 of the public debt which are not due or callable until  
19 after the expiration of 4 years from the end of such  
20 calendar month, except that where such average  
21 market yield is not a multiple of one-eighth of 1 per  
22 centum, the rate of interest on such obligations shall  
23 be the multiple of one-eighth of 1 per centum near-  
24 est such market yield.

1           “(3) REPAYMENT OF OBLIGATIONS.—Obliga-  
2           tions issued under this subsection may be redeemed  
3           only by funds in the Transition Fund.

4           “(d) DEPOSIT OF OASDI TRUST FUND SURPLUS.—

5           “(1) IN GENERAL.—There are appropriated to  
6           the Transition Fund for the fiscal year beginning in  
7           2030, and for each fiscal year thereafter, out of any  
8           moneys in the Federal Old-Age and Survivors Insur-  
9           ance Trust Fund, amounts equivalent to the OASDI  
10          trust fund surplus (as defined in paragraph (2)) for  
11          the preceding fiscal year.

12          “(2) TRANSFERS BASED ON ESTIMATES.—The  
13          amounts appropriated by paragraph (1) shall be  
14          transferred from time to time from the Federal Old-  
15          Age and Survivors Insurance Trust Fund to the  
16          Transition Fund, such amounts to be determined on  
17          the basis of estimates by the Commissioner of Social  
18          Security. Proper adjustments shall be made in  
19          amounts subsequently transferred to the extent prior  
20          estimates were in excess of or were less than such  
21          surplus.

22          “(3) OASDI TRUST FUND SURPLUS DE-  
23          FINED.—In this section, the term ‘OASDI trust  
24          fund surplus’ for a fiscal year means the dollar  
25          amount by which the Federal Old-Age and Survivors

1 Insurance Trust Fund could be reduced as of the  
2 end of such fiscal year so as to result in an OASDI  
3 trust fund ratio (as defined in section 201(p)(4)) for  
4 such fiscal year equal to 125 percent.

5 “(4) RULE OF CONSTRUCTION.—This section  
6 shall not be construed to require redemption of obli-  
7 gations of the Trust Fund for the purpose of mak-  
8 ing transfers to the Transition Fund under this sec-  
9 tion or for any other purpose other than to provide  
10 for payment of benefits under part A of title II of  
11 the Social Security Act.

12 “(e) REDEMPTION OF OBLIGATIONS UPON DEPOSIT  
13 OF FUNDS.—Obligations issued under subsection (c) may  
14 be redeemed only by funds in the Transition Fund. The  
15 Board of Trustees shall provide for the redemption of such  
16 obligations as soon as possible with funds deposited into  
17 the Transition Fund pursuant to subsection (d).

18 “(f) SUNSET.—On the first date as of which all of  
19 the obligations issued under subsection (c) have been re-  
20 deemed, any balance remaining in the Transition Fund  
21 as of such date shall be deposited in the Federal Old-Age  
22 and Survivors Insurance Trust Fund, the terms of the  
23 Board of Trustees shall end, the Transition Fund shall  
24 cease to exist, and this section shall be repealed.”

1 **SEC. 106. BUDGETARY TREATMENT OF SOCIAL SECURITY.**

2 (a) IN GENERAL.—Section 710 of the Social Security  
3 Act (42 U.S.C. 911) is amended to read as follows:

4 “BUDGETARY TREATMENT OF SOCIAL SECURITY

5 “SEC. 710. (a) IN GENERAL.—Notwithstanding any  
6 other provision of law and except as provided in subsection  
7 (b), the receipts and disbursements of the Federal Old-  
8 Age and Survivors Insurance Trust Fund, the Federal  
9 Disability Insurance Trust Fund, the Social Security Per-  
10 sonal Savings Fund, and the Self-Liquidating Social Secu-  
11 rity Transition Fund (including transfers to and from ei-  
12 ther such Trust Fund or such Savings Fund or such Tran-  
13 sition Fund relating to the acquisition or redemption of  
14 obligations acquired by either such Trust Fund or such  
15 Savings Fund or such Transition Fund) and the taxes im-  
16 posed under sections 1401 and 3101 of the Internal Rev-  
17 enue Code of 1986 shall not be counted as new budget  
18 authority, outlays, receipts, or deficit or surplus for pur-  
19 poses of the budget of the Government as submitted by  
20 the President or the congressional budget or be reported  
21 as new budget authority, outlays, receipts, or deficit or  
22 surplus in any report of the Congressional Budget Office  
23 or any other agency or instrumentality of the Government  
24 “(b) MATTERS INCLUDED IN THE BUDGET.—Sub-  
25 section (a) shall not apply with respect to the following:

1           “(1) transfers from the general fund of the  
2 Treasury to the Federal Old-Age and Survivors In-  
3 surance Trust Fund under section 201(o) (relating  
4 to recapture of corporate tax on account yields),  
5 which shall be treated as an expenditure of the Gov-  
6 ernment;

7           “(2) transfers from the general fund of the  
8 Treasury to the Federal Old-Age and Survivors In-  
9 surance Trust Fund under section 201(p) (relating  
10 to recapture of Government savings over baseline),  
11 which shall be treated as an expenditure of the Gov-  
12 ernment;

13           “(3) transfers from the general fund of the  
14 Treasury to the Federal Old-Age and Survivors In-  
15 surance Trust Fund or the Federal Disability Insur-  
16 ance Trust Fund under section 121(e) of the Social  
17 Security Amendments of 1983 (relating to appro-  
18 priation of amounts equivalent to taxes on social se-  
19 curity benefits) (42 U.S.C. 401 note), which shall be  
20 treated as an expenditure of the Government; and

21           “(4) revenues from taxes imposed under chap-  
22 ter 1 of the Internal Revenue Code of 1986, to the  
23 extent attributable to section 86 of such Code (relat-  
24 ing to taxation of social security and tier 1 railroad

1 retirement benefits), which shall be treated as a re-  
2 ceipt of the Government.”.

3 (b) CONFORMING AMENDMENTS.—

4 (1) Section 13301 of the Budget Enforcement  
5 Act of 1990 (2 U.S.C. 632; 2 U.S.C. 632 note) is  
6 repealed.

7 (2) Section 405 of the Congressional Budget  
8 Act of 1974 (2 U.S.C. 655) is amended—

9 (A) by inserting “other than section 710 of  
10 the Social Security Act” after “Notwith-  
11 standing any other provision of law”; and

12 (B) by striking “section, not including”  
13 and all that follows through “Funds,” and in-  
14 serting “section”.

15 (c) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply with respect to fiscal years begin-  
17 ning on or after October 1, 2005.

18 **SEC. 107. DEDICATION OF BUDGET SURPLUSES TO SAVING**  
19 **SOCIAL SECURITY.**

20 (a) IN GENERAL.—Section 201 of the Social Security  
21 Act (as amended by section 103 of this Act) is amended  
22 further by adding at the end the following new subsection:

23 “Transfer of Total Budget Surpluses to Trust Fund

24 “(q) In the case of any fiscal year for which the total  
25 amount treated as income of the Federal Government in

1 the total budget of the United States have exceeded the  
2 total amount treated as expenditures of the Federal Gov-  
3 ernment in the total budget of the United States (as deter-  
4 mined by the Director of the Office of Management and  
5 Budget without regard to section 710), not later than 3  
6 months after the end of such fiscal year, the Secretary  
7 of the Treasury shall transfer from the general fund of  
8 the Treasury to the Federal Old-Age and Survivors Insur-  
9 ance Trust Fund an amount equal to the lesser of—

10           “(1) the total amount transferred from the  
11           Trust Fund during such fiscal year to the Social Se-  
12           curity Personal Savings Fund under section 252(b)  
13           (relating to deposit of amounts equal to redirected  
14           social security contributions), or

15           “(2) the amount by which such total amount  
16           treated as receipts exceeded such total amount treat-  
17           ed as expenditures.”.

18           (b) EFFECTIVE DATE.—The amendment made by  
19           subsection (a) shall apply with respect to fiscal years be-  
20           ginning after September 30, 2005.

1 **SEC. 108. ACCOUNTING FOR THE OLD-AGE, SURVIVORS,**  
2 **AND DISABILITY INSURANCE PROGRAM AND**  
3 **THE PERSONAL SOCIAL SECURITY SAVINGS**  
4 **PROGRAM.**

5 Title VII of the Social Security Act is amended by  
6 inserting after section 705 (42 U.S.C. 906) the following  
7 new section:

8 “ACCOUNTING FOR THE OLD-AGE, SURVIVORS, AND DIS-  
9 ABILITY INSURANCE PROGRAM AND THE INDIVIDUAL  
10 SOCIAL SECURITY INVESTMENT PROGRAM

11 “Social Security Lockbox Budget

12 “SEC. 706. (a) At the time of the transmittal to the  
13 Congress by the President of the budget of the United  
14 States Government, the President shall transmit to each  
15 House of the Congress a separate report (to be known as  
16 the ‘Social Security Lockbox Budget’) detailing the per-  
17 formance during the preceding fiscal year of each of the  
18 accounts established under subsection (b). Such report  
19 shall set forth, as determined as of the end of the year—

20 “(1) the amount of the balance of each account,

21 “(2) the amount of the total charges and the  
22 amount of the total credits to each account for the  
23 year, and

24 “(3) the amount of the total for the year of  
25 each category of charges and credits itemized in sub-  
26 section (b).



1           “(B) all receipts during the year by the Federal  
2           Old-Age and Survivors Insurance Trust Fund and  
3           the Federal Disability Insurance Trust Fund under  
4           section 121(e) of the Social Security Amendments of  
5           1983 (relating to appropriation of amounts equiva-  
6           lent to taxes on social security benefits) (42 U.S.C.  
7           401 note).

8           “(2) For each fiscal year, the Social Security Part  
9           A Account shall be charged with the sum of—

10           “(A) all benefits paid during the year from the  
11           Federal Old-Age and Survivors Insurance Trust  
12           Fund and the Federal Disability Insurance Trust  
13           Fund under part A of title II of the Social Security  
14           Act,

15           “(B) all redirected social security contributions  
16           transferred during the year to the Social Security  
17           Personal Savings Fund under section 252(b),

18           “(C) all other expenditures during the year  
19           from the Trust Funds under part A of title II (ex-  
20           cluding amounts expended as transfers by either  
21           such Trust Fund to the other such Trust Fund and  
22           amounts paid for the purchase of notes and obliga-  
23           tions under section 201(d)), and

24           “(D) all transfers from the Federal Old-Age  
25           and Survivors Insurance Trust Fund to the Self-Liq-



1 any net decrease in the Tier II Investment Fund at-  
2 tributable to investment for the fiscal year, and the  
3 total amount of any net decreases in Tier III Invest-  
4 ment Options attributable to investment for the fis-  
5 cal year, and

6 “(C) annuity payments made during the year  
7 under section 258 from the Annuity Reserve Ac-  
8 count in the Savings Fund.

9 “Charges and Credits to the Self-Liquidating Social  
10 Security Transition Fund Account

11 “(e)(1) For each fiscal year, the Self-Liquidating So-  
12 cial Security Transition Account shall be credited with—

13 “(A) all transfers to the Transition Fund from  
14 the Federal Old-Age and Survivors Insurance Trust  
15 Fund under section 262(b), and

16 “(B) all amounts expended during the fiscal  
17 year from the Trust Funds in the redemption under  
18 section 262(e) of obligations issued by the Transi-  
19 tion fund under section 262(e).

20 “(2) For each fiscal year, the Self-Liquidating Social  
21 Security Transition Fund Account shall be charged with  
22 the total amount of obligations issued during the fiscal  
23 year by the Transition Fund under section 262(e)”.

1 **SEC. 109. REDUCTION OF FICA RATES RESULTING FROM**  
2 **PERSONAL SOCIAL SECURITY SAVINGS PRO-**  
3 **GRAM.**

4 (a) EMPLOYEE CONTRIBUTION.—Section 3101 of the  
5 Internal Revenue Code of 1986 (relating to tax on employ-  
6 ees) is amended by adding at the end the following new  
7 subsection:

8 “(d) REDUCTION IN OLD-AGE, SURVIVORS, AND DIS-  
9 ABILITY INSURANCE TAX RATE.—

10 “(1) IN GENERAL.—In any year which follows  
11 a reduction year and each year thereafter, the rate  
12 of tax imposed under subsection (a) shall be reduced  
13 by the reduction percentage.

14 “(2) REDUCTION YEAR.—For purposes of this  
15 section—

16 “(A) IN GENERAL.—The term ‘reduction  
17 year’ means any year after the transition year  
18 in which the OASDI rate ratio exceeds 125 per-  
19 cent.

20 “(B) TRANSITION YEAR.—The term ‘tran-  
21 sition year’ means the first full calendar year  
22 following the termination year (as defined in  
23 section 201(p)(3) of the Social Security Act).

24 “(3) REDUCTION PERCENTAGE.—For purposes  
25 of this section, the term ‘reduction percentage’  
26 means the excess of—

1           “(A) the rate in effect under subsection (a)  
2           for the reduction year, over

3           “(B) the rate (rounded up to the nearest  
4           one tenth of a percent) under which the OASDI  
5           rate ratio for the reduction year would have  
6           been 125 percent if—

7                   “(i) such rate had been applicable  
8                   under subsection (a) and section 3111(a)  
9                   during such year, and

10                   “(ii) the rate under section 1401(a)  
11                   during such year were twice such rate.

12           “(4) OASDI RATE RATIO.—The term ‘OASDI  
13           rate ratio’ means, with respect to any calendar year,  
14           the ratio—

15                   “(A) the numerator of which is the com-  
16                   bined balance in the Old-Age and Survivors In-  
17                   surance Trust Fund and the Federal Disability  
18                   Insurance Trust Fund, as of the last day of  
19                   such calendar year, and

20                   “(B) the denominator of which is the  
21                   amount paid from such Trust Funds during  
22                   such calendar year for all purposes authorized  
23                   by section 201 of the Social Security Act (ex-  
24                   cluding any transfer payments between such  
25                   Trust Funds and reducing the amount of any

1 transfer to the Railroad Retirement Account by  
2 the amount of any transfers into either such  
3 Trust Fund from such Account).

4 “(5) LIMITATION ON REDUCTION.—Paragraph  
5 (1) shall not apply to any reduction to the extent  
6 that such reduction would cause the rate of tax im-  
7 posed under subsection (a) to be less than 4.95 per-  
8 cent.”.

9 (b) EMPLOYER CONTRIBUTION.—Section 3111 of the  
10 Internal Revenue Code of 1986 (relating to tax on employ-  
11 ers) is amended by adding at the end the following new  
12 subsection:

13 “(d) REDUCTION IN OLD-AGE, SURVIVORS, AND DIS-  
14 ABILITY INSURANCE TAX RATE.—

15 “(1) IN GENERAL.—In any year which follows  
16 a reduction year and each year thereafter, the rate  
17 of tax imposed under subsection (a) shall be reduced  
18 by the reduction percentage.

19 “(2) REDUCTION YEAR; REDUCTION PERCENT-  
20 AGE.—For purposes of this section, the terms ‘re-  
21 duction year’ and ‘reduction percentage’ have the  
22 meanings given such terms by section 3101(d).

23 “(3) LIMITATION ON REDUCTION.—Paragraph  
24 (1) shall not apply to any reduction to the extent  
25 that such reduction would cause the rate of tax im-

1 posed under subsection (a) to be less than 4.95 per-  
2 cent.”.

3 (c) SELF-EMPLOYMENT CONTRIBUTION.—Section  
4 1401 of the Internal Revenue Code of 1986 (relating to  
5 tax on self-employment income) is amended by adding at  
6 the end the following new subsection:

7 “(d) REDUCTION IN OLD-AGE, SURVIVORS, AND DIS-  
8 ABILITY INSURANCE TAX RATE.—

9 “(1) IN GENERAL.—In any year which follows  
10 a reduction year and each year thereafter, the rate  
11 of tax imposed under subsection (a) shall be reduced  
12 by the reduction percentage.

13 “(2) REDUCTION YEAR; REDUCTION PERCENT-  
14 AGE.—For purposes of this section, the terms ‘re-  
15 duction year’ and ‘reduction percentage’ have the  
16 meanings given such terms by section 3101(d).

17 “(3) LIMITATION ON REDUCTION.—Paragraph  
18 (1) shall not apply to any reduction to the extent  
19 that such reduction would cause the rate of tax im-  
20 posed under subsection (a) to be less than 9.9 per-  
21 cent.”.

1       **TITLE II—PUTTING A LID ON**  
2               **THE FEDERAL BUDGET**  
3       **Subtitle A—Spending Safeguards**  
4               **on the Growth of Entitlements**  
5               **and Mandatories**

6       **SEC. 201. SPENDING CAPS ON GROWTH OF ENTITLEMENTS**  
7                       **AND MANDATORIES.**

8           (a)     CONTROL     OF     ENTITLEMENTS     AND  
9     MANDATORIES.—The Balanced Budget and Emergency  
10    Deficit Control Act of 1985 is amended by adding after  
11    section 252 the following new section:

12    **“SEC. 252A. ENFORCING CONTROLS ON DIRECT SPENDING.**

13           “(a) CAP ON GROWTH OF ENTITLEMENTS.—Effec-  
14    tive for fiscal year 2007 and for each ensuing fiscal year,  
15    the total level of direct spending for all direct spending  
16    programs, projects, and activities (excluding social secu-  
17    rity) for any such fiscal year shall not exceed the total  
18    level of spending for all such programs, projects, and ac-  
19    tivities for the previous fiscal year after the direct spend-  
20    ing for each such program, project, or activity is increased  
21    by the higher of the change in the Consumer Price Index  
22    for All Urban Consumers or the inflator (if any) applicable  
23    to that program, project, or activity and the growth in  
24    eligible population for such, project, or activity.

1       “(b) SEQUESTRATION.—Within 15 days after Con-  
2 gress adjourns to end a session (other than of the second  
3 session of the One Hundred Ninth Congress), and on the  
4 same day as a sequestration (if any) under section 251,  
5 there shall be a sequestration to reduce the amount of di-  
6 rect spending for the fiscal year beginning in the year the  
7 Congress adjourns by any amount necessary to reduce  
8 such spending to the level set forth in subsection (a) un-  
9 less that amount is less than \$250,000,000.

10       “(c) UNIFORM REDUCTIONS; LIMITATIONS.—The  
11 amount required to be sequestered for the fiscal year  
12 under subsection (a) shall be obtained from nonexempt di-  
13 rect spending accounts by actions taken in the following  
14 order:

15               “(1) FIRST.—The reductions in the programs  
16 specified in section 255(a) (National Wool Act and  
17 special milk), section 255(b) (student loans), and  
18 section 255(c) (foster care and adoption assistance)  
19 shall be made.

20               “(2) SECOND.—Any additional reductions that  
21 may be required shall be achieved by reducing each  
22 remaining nonexempt direct spending account by the  
23 uniform percentage necessary to achieve those addi-  
24 tional reductions, except that—

1           “(A) the low-income programs specified in  
2           section 255(d) shall not be reduced by more  
3           than 2 percent;

4           “(B) the retirement and veterans benefits  
5           specified in sections 255(f), (g), and (h) shall  
6           not be reduced by more than 2 percent in the  
7           manner specified in that section; and

8           “(C) the medicare programs shall not be  
9           reduced by more than 2 percent in the manner  
10          specified in section 255(i).

11          The limitations set forth in subparagraphs (A), (B),  
12          and (C) shall be applied iteratively, and after each  
13          iteration the uniform percentage applicable to all  
14          other programs under this paragraph shall be in-  
15          creased (if necessary) to a level sufficient to achieve  
16          the reductions required by this paragraph.

17          “(d) EXCLUSION OF MEDICARE PRESCRIPTION  
18          DRUG PROGRAM UNTIL FULLY OPERATIONAL.—For pur-  
19          poses of this section with respect to the limitation under  
20          subsection (a) for a fiscal year before fiscal year 2008,  
21          direct spending programs and direct spending shall not  
22          be construed to include part D of title XVIII of the Social  
23          Security Act (or spending under part C of such title that  
24          is attributable to such part D).”.

1 (b) TABLE OF CONTENTS AMENDMENT.—The table  
2 of contents set forth in 250(c) of the Balanced Budget  
3 and Emergency Deficit Control Act of 1985 is amended  
4 by adding after the item relating to section 252 the fol-  
5 lowing new item:

“252A. Enforcing controls on direct spending.”.

6 **SEC. 202. EXEMPT PROGRAMS AND ACTIVITIES.**

7 Section 255 of the Balanced Budget and Emergency  
8 Deficit Control Act of 1985 is amended to read as follows:

9 **“SEC. 255. EXEMPT PROGRAMS AND ACTIVITIES.**

10 “(a) SOCIAL SECURITY BENEFITS; TIER I RAILROAD  
11 RETIREMENT BENEFITS; AND CERTAIN MEDICARE BEN-  
12 EFITS.—(1) Benefits payable under the old-age, survivors,  
13 and disability insurance program established under title  
14 II of the Social Security Act, and benefits payable under  
15 section 3(a), 3(f)(3), 4(a), or 4(f) of the Railroad Retire-  
16 ment Act of 1974, shall be exempt from reduction under  
17 any order issued under this part.

18 “(2) Payments made under part A of title XVIII (re-  
19 lating to part A medicare hospital insurance benefits) of  
20 the Social Security Act and payments made under part  
21 C of such title (relating to the Medicare Advantage pro-  
22 gram) insofar as they are attributable to part A of such  
23 title shall be exempt from reduction under any order  
24 issued under this part.

1       “(b) DESCRIPTIONS AND LISTS.—The following  
2 budget accounts or activities shall be exempt from seques-  
3 tration:

4           “(1) net interest;

5           “(2) all payments to trust funds from excise  
6 taxes or other receipts or collections properly cred-  
7 itable to those trust funds;

8           “(3) all payments from one Federal direct  
9 spending budget account to another Federal budget  
10 account; and all intragovernmental funds including  
11 those from which funding is derived primarily from  
12 other Government accounts, except to the extent  
13 that such funds are augmented by direct appropria-  
14 tions for the fiscal year for which the order is in ef-  
15 fect;

16           “(4) activities resulting from private donations,  
17 bequests, or voluntary contributions to the Govern-  
18 ment;

19           “(5) payments from any revolving fund or  
20 trust-revolving fund (or similar activity) that pro-  
21 vides deposit insurance or other Government insur-  
22 ance, Government guarantees, or any other form of  
23 contingent liability, to the extent those payments re-  
24 sult from contractual or other legally binding com-

1       mitments of the Government at the time of any se-  
2       questration;

3             “(6) credit liquidating and financing accounts;

4             “(7) the following accounts, which largely fulfill  
5       requirements of the Constitution or otherwise make  
6       payments to which the Government is committed:

7             “Administration of Territories, Northern  
8       Mariana Islands Covenant grants (14-0412-0-  
9       1-806);

10            “Armed Forces Retirement Home Trust  
11       Fund, payment of claims (84-8930-0-7-705);

12            “Bureau of Indian Affairs, miscellaneous  
13       payments to Indians (14-2303-0-1-452);

14            “Bureau of Indian Affairs, miscellaneous  
15       trust funds, tribal trust funds (14-9973-0-7-  
16       999);

17            “Claims, defense;

18            “Claims, judgments, and relief act (20-  
19       1895-0-1-806);

20            “Compact of Free Association, economic  
21       assistance pursuant to Public Law 99-658 (14-  
22       0415-0-1-806);

23            “Compensation of the President (11-  
24       0001-0-1-802);

1           “Customs Service, miscellaneous perma-  
2           nent appropriations (20-9992-0-2-852);

3           “Eastern Indian land claims settlement  
4           fund (14-2202-0-1-806);

5           “Farm Credit Administration, Limitation  
6           on Administration Expenses (78-4131-0-3-  
7           351);

8           “Farm Credit System Financial Assistance  
9           Corporation, interest payments (20-1850-0-1-  
10          351);

11          “Internal Revenue collections of Puerto  
12          Rico (20-5737-0-2-852);

13          “Panama Canal Commission, operating ex-  
14          penses and capital outlay (95-5190-0-2-403);

15          “Payments of Vietnam and USS Pueblo  
16          prisoner-of-war claims (15-0104-0-1-153);

17          “Payments to copyright owners (03-5175-  
18          0-2-376);

19          “Payments to health care trust funds (75-  
20          0580-0-1-571);

21          “Payments to social security trust funds  
22          (75-0404-0-1-651);

23          “Payments to the United States terri-  
24          tories, fiscal assistance (14-0418-0-1-801);

1           “Payments to widows and heirs of de-  
2 ceased Members of Congress (00-0215-0-1-  
3 801);

4           “Pension Benefit Guaranty Corporation  
5 Fund (16-4204-0-3-601);

6           “Salaries of Article III judges;

7           “Washington Metropolitan Area Transit  
8 Authority, interest payments (46-0300-0-1-  
9 401);

10          “(8) the following noncredit special, revolving,  
11 or trust-revolving funds:

12           “Coinage profit fund (20-5811-0-2-803);

13           “Comptroller of the Currency;

14           “Director of the Office of Thrift Super-  
15 vision;

16           “Exchange Stabilization Fund (20-4444-  
17 0-3-155);

18           “Federal Housing Finance Board;

19           “Foreign Military Sales trust fund (11-  
20 82232-0-7-155);

21           “National Credit Union Administration,  
22 central liquidating facility (25-4470-0-3-373);

23           “National Credit Union Administration,  
24 credit union insurance fund (25-4468-0-3-  
25 373);

1           “National Credit Union Administration op-  
2           erating fund (25–4056–0–3–373); and

3           “Resolution Trust Corporation Revolving  
4           Fund (22–4055–0–3–373);

5           “(9) Thrift Savings Fund;

6           “(10) appropriations for the District of Colum-  
7           bia to the extent they are appropriations of locally  
8           raised funds;

9           “(11)(A) any amount paid as regular unemploy-  
10          ment compensation by a State from its account in  
11          the Unemployment Trust Fund (established by sec-  
12          tion 904(a) of the Social Security Act);

13          “(B) any advance made to a State from the  
14          Federal unemployment account (established by sec-  
15          tion 904(g) of such Act) under title XII of such Act  
16          and any advance appropriated to the Federal unem-  
17          ployment account pursuant to section 1203 of such  
18          Act; and

19          “(C) any payment made from the Federal Em-  
20          ployees Compensation Account (as established under  
21          section 909 of such Act) for the purpose of carrying  
22          out chapter 85 of title 5, United States Code, and  
23          funds appropriated or transferred to or otherwise  
24          deposited in such Account; and

1           “(12)(A) FDIC, Bank Insurance Fund (51–  
2           4064–0–3–373);

3           “(B) FDIC, FSLIC Resolution Fund (51–  
4           4065–0–3–373); and

5           “(C) FDIC, Savings Association Insurance  
6           Fund (51–4066–0–3–373).

7           “(c) FEDERAL RETIREMENT AND DISABILITY AC-  
8           COUNTS.—The following Federal retirement and disability  
9           accounts shall be exempt from reduction under any order  
10          issued under this part:

11           “Civil service retirement and disability fund  
12           (24–8135–0–7–602).

13           “Black Lung Disability Trust Fund (20–8144–  
14           0–7–601).

15           “Foreign Service Retirement and Disability  
16           Fund (19–8186–0–7–602).

17           “District of Columbia Judicial Retirement and  
18           Survivors Annuity Fund (20–8212–0–7–602).

19           “Judicial Survivors’ Annuities Fund (10–8110–  
20           0–7–602).

21           “Payments to the Railroad Retirement Ac-  
22           counts (60–0113–0–1–601).

23           “Tax Court Judges Survivors Annuity Fund  
24           (23–8115–0–7–602).

1           “Employees Life Insurance Fund (24–8424–0–  
2           8–602).

3           “(d) FEDERAL ADMINISTRATIVE EXPENSES.—

4           “(1) Notwithstanding any provision of law  
5           other than paragraph (3), administrative expenses  
6           incurred by the departments and agencies, including  
7           independent agencies, of the Government in connec-  
8           tion with any program, project, activity, or account  
9           shall be subject to reduction pursuant to any seques-  
10          tration order, without regard to any exemption, ex-  
11          ception, limitation, or special rule otherwise applica-  
12          ble with respect to such program, project, activity,  
13          or account, and regardless of whether the program,  
14          project, activity, or account is self-supporting and  
15          does not receive appropriations.

16          “(2) Payments made by the Government to re-  
17          imburse or match administrative costs incurred by a  
18          State or political subdivision under or in connection  
19          with any program, project, activity, or account shall  
20          not be considered administrative expenses of the  
21          Government for purposes of this section, and shall  
22          be subject to sequestration to the extent (and only  
23          to the extent) that other payments made by the Gov-  
24          ernment under or in connection with that program,  
25          project, activity, or account are subject to that re-

1       duction or sequestration; except that Federal pay-  
2       ments made to a State as reimbursement of admin-  
3       istrative costs incurred by that State under or in  
4       connection with the unemployment compensation  
5       programs specified in subsection (a)(11) shall be  
6       subject to reduction or sequestration under this part  
7       notwithstanding the exemption otherwise granted to  
8       such programs under that subsection.

9           “(3) Notwithstanding any other provision of  
10       law, the administrative expenses of the following  
11       programs shall be exempt from sequestration:

12           “(A) Comptroller of the Currency.

13           “(B) Federal Deposit Insurance Corpora-  
14       tion.

15           “(C) Office of Thrift Supervision.

16           “(D) National Credit Union Administra-  
17       tion.

18           “(E) National Credit Union Administra-  
19       tion, central liquidity facility.

20           “(F) Federal Retirement Thrift Invest-  
21       ment Board.

22           “(G) Resolution Funding Corporation.

23           “(H) Resolution Trust Corporation.

24           “(I) Board of Governors of the Federal  
25       Reserve System.

1       “(e) VETERANS’ PROGRAMS.—The following pro-  
2 grams shall be exempt from reduction under any order  
3 issued under this part:

4               “General Post Funds (36–8180–0–7–705).

5               “Veterans Insurance and Indemnities (36–  
6 0120–0–1–701).

7               “Service-Disabled Veterans Insurance Funds  
8 (36–4012–0–3–701).

9               “Veterans Reopened Insurance Fund (36–  
10 4010–0–3–701).

11              “Servicemembers’ Group Life Insurance Fund  
12 (36–4009–0–3–701).

13              “Post-Vietnam Era Veterans Education Ac-  
14 count (36–8133–0–7–702).

15              “National Service Life Insurance Fund (36–  
16 8132–0–7–701).

17              “United States Government Life Insurance  
18 Fund (36–8150–0–7–701).

19              “Veterans Special Life Insurance Fund (36–  
20 8455–0–8–701).

21       “(f) OPTIONAL EXEMPTION OF DEFENSE AND  
22 HOMELAND SECURITY ACCOUNTS.—

23              “(1) IN GENERAL.—The President may, with  
24 respect to any defense or homeland security account,  
25 exempt that account from sequestration or provide

1 for a lower uniform percentage reduction than would  
2 otherwise apply.

3 “(2) LIMITATION.—The President may not use  
4 the authority provided by paragraph (1) unless the  
5 President notifies the Congress of the manner in  
6 which such authority will be exercised on or before  
7 the date specified in section 254(a) for the budget  
8 year.”.

9 **SEC. 203. EXCEPTIONS, LIMITATIONS, AND SPECIAL RULES.**

10 (a) IN GENERAL.—Section 256 of the Balanced  
11 Budget and Emergency Deficit Control Act of 1985 is  
12 amended to read as follows:

13 **“SEC. 256. EXCEPTIONS, LIMITATIONS, AND SPECIAL**  
14 **RULES.**

15 “(a) NATIONAL WOOL ACT AND THE SPECIAL MILK  
16 PROGRAM.—Automatic spending increases are increases  
17 in outlays due to changes in indexes in the following pro-  
18 grams:

19 “(1) National Wool Act; and

20 “(2) Special milk program.

21 In those programs all amounts other than the automatic  
22 spending increases shall be exempt from reduction under  
23 any sequestration order.

24 “(b) STUDENT LOANS.—For all student loans under  
25 part B or D of title IV of the Higher Education Act of

1 1965 made during the period when a sequestration order  
2 under section 254 is in effect as required by section 252  
3 or 253, origination fees under sections 438(c)(2) and  
4 455(c) of that Act shall each be increased by 0.50 percent-  
5 age point.

6       “(c) FOSTER CARE AND ADOPTION ASSISTANCE  
7 PROGRAMS.—Any sequestration order shall make the re-  
8 duction otherwise required under the foster care and adop-  
9 tion assistance programs (established by part E of title  
10 IV of the Social Security Act) only with respect to pay-  
11 ments and expenditures made by States in which increases  
12 in foster care maintenance payment rates or adoption as-  
13 sistance payment rates (or both) are to take effect during  
14 the fiscal year involved, and only to the extent that the  
15 required reduction can be accomplished by applying a uni-  
16 form percentage reduction to the Federal matching pay-  
17 ments that each such State would otherwise receive under  
18 section 474 of that Act (for such fiscal year) for that por-  
19 tion of the State’s payments attributable to the increases  
20 taking effect during that year. No State’s matching pay-  
21 ments from the Government for foster care maintenance  
22 payments or for adoption assistance maintenance pay-  
23 ments may be reduced by a percentage exceeding the ap-  
24 plicable domestic sequestration percentage. No State may,  
25 after the date of the enactment of this Act, make any

1 change in the timetable for making payments under a  
2 State plan approved under part E of title IV of the Social  
3 Security Act which has the effect of changing the fiscal  
4 year in which expenditures under such part are made.

5 “(d) LOW-INCOME PROGRAMS.—(1) Benefit pay-  
6 ments or payments to States or other entities for the pro-  
7 grams listed in paragraph (2) shall not be reduced by  
8 more than 2 percent under any sequestration order. When  
9 reduced under an end-of-session sequestration order, those  
10 benefit reductions shall occur starting with the payment  
11 made at the start of January. When reduced under a with-  
12 in-session sequestration order, those benefit reductions  
13 shall occur starting with the next periodic payment.

14 “(2) The programs referred to in paragraph (1) are  
15 the following:

16 “Child Nutrition (12–3539–0–1–605).

17 “Food Stamp Programs (12–3505–0–1–605).

18 “Grants to States for Medicaid (75–0512–0–1–  
19 551).

20 “State Children’s Health Insurance Fund (75–  
21 0515–0–1–551).

22 “Supplemental Security Income Program (75–  
23 0406–0–1–609).

24 “Temporary Assistance for Needy Families  
25 (75–1552–0–1–609).

1           “Special supplemental nutrition program for  
2 women, infants, and children (WIC) (12–3510–0–1–  
3 605).

4           “(e) VETERANS’ MEDICAL CARE.—The maximum  
5 permissible reduction in budget authority for Veterans’  
6 medical care (36–0160–0–1–703) for any fiscal year, pur-  
7 suant to an order issued under section 254, shall be 2  
8 percent.

9           “(f) FEDERAL RETIREMENT PROGRAMS.—

10           “(1) For each of the programs listed in para-  
11 graph (2) and except as provided in paragraph (3),  
12 monthly (or other periodic) benefit payments shall  
13 be reduced by the uniform percentage applicable to  
14 direct spending sequestrations for such programs,  
15 which shall in no case exceed 2 percent under any  
16 sequestration order. When reduced under an end-of-  
17 session sequestration order, those benefit reductions  
18 shall occur starting with the payment made at the  
19 start of January or 7 weeks after the order is  
20 issued, whichever is later. When reduced under a  
21 within-session sequestration order, those benefit re-  
22 ductions shall occur starting with the next periodic  
23 payment.

24           “(2) The programs subject to paragraph (1)  
25 are:

1           “Central Intelligence Agency Retirement  
2           and Disability Fund (56–3400–0–1–054).

3           “Comptrollers General Retirement System  
4           (05–0107–0–1–801) Payments to the Foreign  
5           Service Retirement and Disability Fund (72–  
6           1036–0–1–153).

7           “Judicial Officer’ Retirement Fund (10–  
8           8122–0–7–602).

9           “Claims Judges’ Retirement Fund (10–  
10          8124–0–7–602).

11          “Pensions for former Presidents (47–  
12          0105–0–1–802).

13          “National Oceanic and Atmospheric Ad-  
14          ministration Retirement (13–1450–0–1–306).

15          “Railroad Industry Pension Fund (60–  
16          8011–0–7–601).

17          “Retired pay, Coast Guard (70–0602–0–1–  
18          403).

19          “Retirement pay and medical benefits for  
20          commissioned officers, Public Health Service  
21          (75–0379–0–1–551).

22          “Payments to Civil Service Retirement and  
23          Disability Fund (24–0200–0–1–805).

24          “Payments to the Foreign Service Retire-  
25          ment and Disability Fund (72–1036–0–1–153).

1                   “Payments to Judiciary Trust Funds (10–  
2                   0941–0–1–752).

3           “(g) VETERANS PROGRAMS.—To achieve the total  
4 percentage reduction required by any order issued under  
5 this part, the percentage reduction that shall apply to pay-  
6 ments under the following programs shall in no event ex-  
7 ceed 2 percent:

8                   “Canteen Service Revolving Fund (36–4014–0–  
9                   3–705).

10                   “Medical Center Research Organizations (36–  
11                   4026–0–3–703).

12                   “Disability Compensation Benefits (36–0102–  
13                   0–1–701).

14                   “Education Benefits (36–0137–0–1–702).

15                   “Vocational Rehabilitation and Employment  
16 Benefits (36–0135–0–1–702).

17                   “Pensions Benefits (36–0154–0–1–701).

18                   “Burial Benefits (36–0139–0–1–701).

19                   “Guaranteed Transitional Housing Loans For  
20 Homeless Veterans Program Account (36–1119–0–  
21 1–704).

22                   “Housing Direct Loan Financing Account (36–  
23 4127–0–1–704).

24                   “Housing Guaranteed Loan Financing Account  
25 (36–4129–0–3–704)

1           “Vocational Rehabilitation and Education Di-  
2           rect Loan Financing Account (36-4259-0-3-702).

3           “(h) MILITARY HEALTH AND RETIREMENT.—To  
4           achieve the total percentage reduction in military retire-  
5           ment required by any order issued under this part, the  
6           percentage reduction that shall apply to payments under  
7           the Military retirement fund (97-8097-0-7-602), pay-  
8           ments to the military retirement fund (97-0040-0-1-  
9           054), and the Defense Health Program (97-0130-0-1-  
10          051) shall in no event exceed 2 percent.

11          “(i) MEDICARE PROGRAM.—

12           “(1) CALCULATION OF REDUCTION IN INDI-  
13          VIDUAL PAYMENT AMOUNTS.—To achieve the total  
14          percentage reduction in those programs required by  
15          any order issued under this part, the percentage re-  
16          duction that shall apply to payments under the  
17          health insurance programs under title XVIII of the  
18          Social Security Act (other than payments described  
19          in section 255(a)(2)) that are subject to such order  
20          for services furnished after any sequestration order  
21          is issued shall be such that the reduction made in  
22          payments under that order shall achieve the required  
23          total percentage reduction in those payments for  
24          that fiscal year as determined on a 12-month basis.  
25          However, the percentage reduction under any such

1 program shall in no case exceed 2 percent under any  
2 sequestration order.

3 “(2) TIMING OF APPLICATION OF REDUC-  
4 TIONS.—If a reduction is made under paragraph (1)  
5 in payment amounts pursuant to a sequestration  
6 order, the reduction shall be applied to payment for  
7 services furnished after the effective date of the  
8 order.

9 “(3) NO INCREASE IN BENEFICIARY CHARGES  
10 IN ASSIGNMENT-RELATED CASES.—If a reduction in  
11 payment amounts is made under paragraph (1) for  
12 services for which payment under part B of title  
13 XVIII of the Social Security Act is made on the  
14 basis of an assignment described in section  
15 1842(b)(3)(B)(ii), in accordance with section  
16 1842(b)(6)(B), or under the procedure described in  
17 section 1870(f)(1) of such Act, the person furnishing  
18 the services shall be considered to have accepted  
19 payment of the reasonable charge for the services,  
20 less any reduction in payment amount made pursu-  
21 ant to a sequestration order, as payment in full.

22 “(4) APPLICATION TO PARTS C AND D.—The  
23 reductions otherwise required under parts C and D  
24 of title XVIII of the Social Security Act with respect  
25 to a fiscal year shall be applied to the calendar year

1 that begins after the end of the fiscal year to which  
2 the applicable sequestration order applies.

3 “(j) FEDERAL PAY.—

4 “(1) IN GENERAL.—For purposes of any order  
5 issued under section 254, new budget authority to  
6 pay Federal personnel shall be reduced by the appli-  
7 cable uniform percentage, but no sequestration order  
8 may reduce or have the effect of reducing the rate  
9 of pay to which any individual is entitled under any  
10 statutory pay system (as increased by any amount  
11 payable under section 5304 of title 5, United States  
12 Code, or section 302 of the Federal Employees Pay  
13 Comparability Act of 1990) or the rate of any ele-  
14 ment of military pay to which any individual is enti-  
15 tled under title 37, United States Code, or any in-  
16 crease in rates of pay which is scheduled to take ef-  
17 fect under section 5303 of title 5, United States  
18 Code, section 1009 of title 37, United States Code,  
19 or any other provision of law.

20 “(2) DEFINITIONS.—For purposes of this sub-  
21 section:

22 “(A) The term ‘statutory pay system’ shall  
23 have the meaning given that term in section  
24 5302(1) of title 5, United States Code.

1           “(B) The term ‘elements of military pay’  
2           means—

3                   “(i) the elements of compensation of  
4                   members of the uniformed services speci-  
5                   fied in section 1009 of title 37, United  
6                   States Code,

7                   “(ii) allowances provided members of  
8                   the uniformed services under sections 403a  
9                   and 405 of such title, and

10                   “(iii) cadet pay and midshipman pay  
11                   under section 203(c) of such title.

12           “(C) The term ‘uniformed services’ shall  
13           have the meaning given that term in section  
14           101(3) of title 37, United States Code.

15           “(k) CHILD SUPPORT ENFORCEMENT PROGRAM.—  
16 Any sequestration order shall accomplish the full amount  
17 of any required reduction in expenditures under sections  
18 455 and 458 of the Social Security Act by reducing the  
19 Federal matching rate for State administrative costs  
20 under such program, as specified (for the fiscal year in-  
21 volved) in section 455(a) of such Act, to the extent nec-  
22 essary to reduce such expenditures by that amount.

23           “(l) EXTENDED UNEMPLOYMENT COMPENSATION.—  
24 (1) A State may reduce each weekly benefit payment made  
25 under the Federal-State Extended Unemployment Com-

1   pensation Act of 1970 for any week of unemployment oc-  
2   curring during any period with respect to which payments  
3   are reduced under an order issued under this title by a  
4   percentage not to exceed the percentage by which the Fed-  
5   eral payment to the State under section 204 of such Act  
6   is to be reduced for such week as a result of such order.

7       “(2) A reduction by a State in accordance with sub-  
8   paragraph (A) shall not be considered as a failure to fulfill  
9   the requirements of section 3304(a)(11) of the Internal  
10  Revenue Code of 1954.

11       “(m) COMMODITY CREDIT CORPORATION.—

12           “(1) POWERS AND AUTHORITIES OF THE COM-  
13   MODITY CREDIT CORPORATION.—This title shall not  
14   restrict the Commodity Credit Corporation in the  
15   discharge of its authority and responsibility as a cor-  
16   poration to buy and sell commodities in world trade,  
17   to use the proceeds as a revolving fund to meet  
18   other obligations and otherwise operate as a corpora-  
19   tion, the purpose for which it was created.

20           “(2) REDUCTION IN PAYMENTS MADE UNDER  
21   CONTRACTS.—(A) Payments and loan eligibility  
22   under any contract entered into with a person by the  
23   Commodity Credit Corporation prior to the time any  
24   sequestration order has been issued shall not be re-  
25   duced by an order subsequently issued. Subject to

1 subparagraph (B), after any sequestration order is  
2 issued for a fiscal year, any cash payments made by  
3 the Commodity Credit Corporation—

4 “(i) under the terms of any one-year con-  
5 tract entered into in or after such fiscal year  
6 and after the issuance of the order; and

7 “(ii) out of an entitlement account, to any  
8 person (including any producer, lender, or guar-  
9 antee entity) shall be subject to reduction under  
10 the order.

11 “(B) Each contract entered into with producers  
12 or producer cooperatives with respect to a particular  
13 crop of a commodity and subject to reduction under  
14 subparagraph (A) shall be reduced in accordance  
15 with the same terms and conditions. If some, but  
16 not all, contracts applicable to a crop of a com-  
17 modity have been entered into prior to the issuance  
18 of any sequestration order, the order shall provide  
19 that the necessary reduction in payments under con-  
20 tracts applicable to the commodity be uniformly ap-  
21 plied to all contracts for succeeding crops of the  
22 commodity, under the authority provided in para-  
23 graph (3).

24 “(3) DELAYED REDUCTION IN OUTLAYS PER-  
25 MISSIBLE.—Notwithstanding any other provision of

1 this title, if any sequestration order is issued with  
2 respect to a fiscal year, any reduction under the  
3 order applicable to contracts described in paragraph  
4 (2) may provide for reductions in outlays for the ac-  
5 count involved to occur in the fiscal years following  
6 the fiscal year to which the order applies.

7 “(4) UNIFORM PERCENTAGE RATE OF REDUC-  
8 TION AND OTHER LIMITATIONS.—All reductions de-  
9 scribed in paragraph (2) that are required to be  
10 made in connection with any sequestration order  
11 with respect to a fiscal year—

12 “(A) shall be made so as to ensure that  
13 outlays for each program, project, activity, or  
14 account involved are reduced by a percentage  
15 rate that is uniform for all such programs,  
16 projects, activities, and accounts, and may not  
17 be made so as to achieve a percentage rate of  
18 reduction in any such item exceeding the rate  
19 specified in the order; and

20 “(B) with respect to commodity price sup-  
21 port and income protection programs, shall be  
22 made in such manner and under such proce-  
23 dures as will attempt to ensure that—

1           “(i) uncertainty as to the scope of  
2           benefits under any such program is mini-  
3           mized;

4           “(ii) any instability in market prices  
5           for agricultural commodities resulting from  
6           the reduction is minimized; and

7           “(iii) normal production and mar-  
8           keting relationships among agricultural  
9           commodities (including both contract and  
10          non-contract commodities) are not dis-  
11          torted.

12          In meeting the criterion set out in clause (iii)  
13          of subparagraph (B) of the preceding sentence,  
14          the President shall take into consideration that  
15          reductions under an order may apply to pro-  
16          grams for two or more agricultural commodities  
17          that use the same type of production or mar-  
18          keting resources or that are alternative com-  
19          modities among which a producer could choose  
20          in making annual production decisions.

21          “(5) CERTAIN AUTHORITY NOT TO BE LIM-  
22          ITED.—Nothing in this title shall limit or reduce in  
23          any way any appropriation that provides the Com-  
24          modity Credit Corporation with funds to cover the  
25          Corporation’s net realized losses.

1       “(n) POSTAL SERVICE FUND.—Notwithstanding any  
2 other provision of law, any sequestration of the Postal  
3 Service Fund shall be accomplished by a payment from  
4 that Fund to the General Fund of the Treasury, and the  
5 Postmaster General of the United States shall make the  
6 full amount of that payment during the fiscal year to  
7 which the presidential sequestration order applies.

8       “(o) EFFECTS OF SEQUESTRATION.—The effects of  
9 sequestration shall be as follows:

10           “(1) Budgetary resources sequestered from any  
11 account other than an entitlement trust, special, or  
12 revolving fund account shall revert to the Treasury  
13 and be permanently canceled.

14           “(2) Except as otherwise provided, the same  
15 percentage sequestration shall apply to all programs,  
16 projects, and activities within a budget account (with  
17 programs, projects, and activities as delineated in  
18 the appropriation Act or accompanying report for  
19 the relevant fiscal year covering that account, or for  
20 accounts not included in appropriation Acts, as de-  
21 lined in the most recently submitted President’s  
22 budget).

23           “(3) Administrative regulations or similar ac-  
24 tions implementing a sequestration shall be made  
25 within 120 days of the sequestration order. To the

1 extent that formula allocations differ at different  
2 levels of budgetary resources within an account, pro-  
3 gram, project, or activity, the sequestration shall be  
4 interpreted as producing a lower total appropriation,  
5 with that lower appropriation being obligated as  
6 though it had been the pre-sequestration appropria-  
7 tion and no sequestration had occurred.

8 “(4) Except as otherwise provided, obligations  
9 in sequestered direct spending accounts shall be re-  
10 duced in the fiscal year in which a sequestration oc-  
11 curs and in all succeeding fiscal years.

12 “(5) If an automatic spending increase is se-  
13 questered, the increase (in the applicable index) that  
14 was disregarded as a result of that sequestration  
15 shall not be taken into account in any subsequent  
16 fiscal year.

17 “(6) Except as otherwise provided, sequestra-  
18 tion in accounts for which obligations are indefinite  
19 shall be taken in a manner to ensure that obliga-  
20 tions in the fiscal year of a sequestration and suc-  
21 ceeding fiscal years are reduced, from the level that  
22 would actually have occurred, by the applicable se-  
23 questration percentage.”.

24 (b) CONFORMING AMENDMENT.—The table of con-  
25 tents set forth in 250(c) of the Balanced Budget and

1 Emergency Deficit Control Act of 1985 is amended by  
2 amending the item relating to section 256 to read as fol-  
3 lows:

“256. Exceptions, limitations, and special rules.”.

4 **SEC. 204. POINT OF ORDER.**

5 (a) ENTITLEMENT POINT OF ORDER.—Section 312  
6 of the Congressional Budget Act of 1974 is amended by  
7 adding at the end the following new subsection:

8 “(g) ENTITLEMENT POINT OF ORDER.—It shall not  
9 be in order in the House of Representatives or the Senate  
10 to consider any bill, joint resolution, amendment, or con-  
11 ference report that—

12 “(1) increases aggregate level of direct spending  
13 for any ensuing fiscal year or

14 “(2) includes any provision that has the effect  
15 of modifying the application of section 252A of the  
16 Balanced Budget and Emergency Deficit Control  
17 Act of 1985 to any entitlement program subject to  
18 sequestration or exempt from sequestration under  
19 such Act.”.

20 **SEC. 205. TECHNICAL AND CONFORMING AMENDMENTS.**

21 The Balanced Budget and Emergency Deficit Control  
22 Act of 1985 is amended as follows:

23 (1) Section 251(a)(1) is amended by inserting  
24 “, section 252A,” after “section 252”.

1           (2) Section 254(c)(4)(B) is amended by insert-  
2           ing “or section 252A” after “section 252”.

3           (3) Section 254(c) is amended by redesignating  
4           paragraph (5) as paragraph (6) and by inserting  
5           after paragraph (4) the following new paragraph:

6           “(5) DIRECT SPENDING CONTROL SEQUESTRA-  
7           TION REPORTS.—The preview reports shall set forth,  
8           for the current year and the budget year, estimates  
9           for each of the following:

10                   “(A) The total level of direct spending for  
11                   all programs, projects, and activities (excluding  
12                   social security).

13                   “(B) The sequestration percentage or (if  
14                   the required sequestration percentage is greater  
15                   than the maximum allowable percentage for  
16                   medicare) percentages necessary to comply with  
17                   section 252A.”.

18           (4) Section 254(f) is amended by redesignating  
19           paragraphs (4) and (5) as paragraphs (5) and (6)  
20           and by inserting after paragraph (3) the following  
21           new paragraph:

22           “(4) DIRECT SPENDING CONTROL SEQUESTRA-  
23           TION REPORTS.—The final reports shall contain all  
24           the information required in the direct spending con-  
25           trol sequestration preview reports. In addition, these

1 reports shall contain, for the budget year, for each  
 2 account to be sequestered, estimates of the baseline  
 3 level of sequesterable budgetary resources and re-  
 4 sulting outlays and the amount of budgetary re-  
 5 sources to be sequestered and resulting outlay reduc-  
 6 tions. The reports shall also contain estimates of the  
 7 effects on outlays of the sequestration in each out-  
 8 year for direct spending programs.”.

9 (5) Section 258C(a)(1) is amended by inserting  
 10 “, 252A,” after “section 252”.

## 11 **Subtitle B—Discretionary** 12 **Spending Limits**

### 13 **SEC. 211. ENFORCING DISCRETIONARY SPENDING LIMITS.**

14 (a) DISCRETIONARY SPENDING LIMITS.—Sections  
 15 251(b) and (c) of the Balanced Budget and Emergency  
 16 Deficit Control of Act of 1985 are amended to read as  
 17 follows:

18 “(b) DISCRETIONARY SPENDING LIMIT.—As used in  
 19 this part, the term ‘discretionary spending limit’ means—

20 “(1) with respect to fiscal year 2007—

21 “(A) \$861,577,682,000 in new budget au-  
 22 thority of which no more than  
 23 \$412,947,276,000 shall be for functions other  
 24 than National Defense (050); and

1           “(B) \$\_\_\_\_\_ in outlays of which no  
2 more than \$\_\_\_\_\_ shall be for functions  
3 other than National Defense (050);

4           “(2) with respect to fiscal year 2008—

5           “(A) \$880,532,400,000 in new budget au-  
6 thority of which no more than  
7 \$422,032,100,000 shall be for functions other  
8 than National Defense (050); and

9           “(B) \$\_\_\_\_\_ in outlays of which no  
10 more than \$\_\_\_\_\_ shall be for functions  
11 other than National Defense (050);

12           “(3) with respect to fiscal year 2009—

13           “(A) \$899,904,100,000 in new budget au-  
14 thority of which no more than  
15 \$431,316,800,000 shall be for functions other  
16 than National Defense (050); and

17           “(B) \$\_\_\_\_\_ in outlays of which no  
18 more than \$\_\_\_\_\_ shall be for functions  
19 other than National Defense (050);

20           “(4) with respect to fiscal year 2010—

21           “(A) \$919,702,000,000 in new budget au-  
22 thority of which no more than  
23 \$440,805,800,000 shall be for functions other  
24 than National Defense (050); and

1           “(B) \$\_\_\_\_\_ in outlays of which no  
2 more than \$\_\_\_\_\_ shall be for functions  
3 other than National Defense (050);

4           “(5) with respect to fiscal year 2011—

5           “(A) \$939,935,400,000 in new budget au-  
6 thority of which no more than  
7 \$450,503,500,000 shall be for functions other  
8 than National Defense (050); and

9           “(B) \$\_\_\_\_\_ in outlays of which no  
10 more than \$\_\_\_\_\_ shall be for functions  
11 other than National Defense (050);

12           “(6) with respect to fiscal year 2012—

13           “(A) \$960,614,000,000 in new budget au-  
14 thority of which no more than  
15 \$460,414,600,000 shall be for functions other  
16 than National Defense (050); and

17           “(B) \$\_\_\_\_\_ in outlays of which no  
18 more than \$\_\_\_\_\_ shall be for functions  
19 other than National Defense (050);

20           “(7) with respect to fiscal year 2013—

21           “(A) \$981,747,500,000 in new budget au-  
22 thority of which no more than  
23 \$470,543,700,000 shall be for functions other  
24 than National Defense (050); and

1           “(B) \$\_\_\_\_\_ in outlays of which no  
2 more than \$\_\_\_\_\_ shall be for functions  
3 other than National Defense (050);

4           “(8) with respect to fiscal year 2014—

5           “(A) \$1,003,346,000,000 in new budget  
6 authority of which no more than  
7 \$480,895,700,000 shall be for functions other  
8 than National Defense (050); and

9           “(B) \$\_\_\_\_\_ in outlays of which no  
10 more than \$\_\_\_\_\_ shall be for functions  
11 other than National Defense (050); and

12           “(9) with respect to fiscal year 2015—

13           “(A) \$1,025,419,600,000 in new budget  
14 authority of which no more than  
15 \$491,475,400,000 shall be for functions other  
16 than National Defense (050); and

17           “(B) \$\_\_\_\_\_ in outlays of which no  
18 more than \$\_\_\_\_\_ shall be for functions  
19 other than National Defense (050).”.

20           (b) DISCRETIONARY SPENDING LIMIT POINT OF  
21 ORDER.—Section 312 of the Congressional Budget Act of  
22 1974 (as amended by section 204) is further amended by  
23 adding at the end the following new subsection:

24           “(h) DISCRETIONARY SPENDING LIMIT POINT OF  
25 ORDER.—It shall not be in order in the House of Rep-

1 representatives or the Senate to consider any bill, joint resolu-  
2 tion, amendment, or conference report that—

3 “(1) increases the discretionary spending limits  
4 for any ensuing fiscal year after the budget year; or  
5 “(2) would cause the discretionary spending  
6 limits for the budget year to be breached.”.

7 (c) ADVANCE APPROPRIATION POINT OF ORDER.—  
8 Section 312 of the Congressional Budget Act of 1974 (as  
9 amended by subsection (b)) is further amended by adding  
10 at the end the following new subsection:

11 “(i) ADVANCE APPROPRIATION POINT OF ORDER.—  
12 It shall not be in order in the House of Representatives  
13 or the Senate to consider any appropriation bill or joint  
14 resolution, or amendment thereto or conference report  
15 thereon, that provides advance discretionary new budget  
16 authority that first becomes available for any fiscal year  
17 after the budget year at an amount for any program,  
18 project, or activity above the amount of appropriations for  
19 fiscal year 2006 for such program, project, or activity.”.

20 (d) EXTENSION OF GRAMM-RUDMAN.—Section  
21 275(b) of the Balanced Budget and Emergency Deficit  
22 Control of Act of 1985 is amended by striking “2002”  
23 and inserting “2015” and by striking “2006” and insert-  
24 ing “2019”.

○