

109TH CONGRESS
1ST SESSION

H. R. 1800

To provide for the establishment and maintenance of personal Social Security investment accounts under the Social Security system.

IN THE HOUSE OF REPRESENTATIVES

APRIL 21, 2005

Mr. PETRI introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To provide for the establishment and maintenance of personal Social Security investment accounts under the Social Security system.

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 “Retirement Security Act of 2005”.

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

Sec. 1. Short title and table of contents.

Sec. 2. Individual retirement investment program and personal Social Security investment accounts.

“PART A—INSURANCE BENEFITS

“PART B—INDIVIDUAL RETIREMENT INVESTMENT PROGRAM

- “Sec. 251. Definitions.
- “Sec. 252. Personal Social Security investment accounts.
- “Sec. 253. Contributions to the Social Security Investment Trust Fund.
- “Sec. 254. Investment of Social Security Investment Trust Fund.
- “Sec. 255. Distributions from the Social Security Investment Trust Fund.
- “Sec. 256. Annuities and lump sum payments payable from the Social Security Investment Trust Fund.
- “Sec. 257. Payment of annuities.
- “Sec. 258. Protections for spouses and former spouses.
- “Sec. 259. Administrative provisions.
- “Sec. 260. Social Security Investment Trust Fund.
- “Sec. 261. Waiver, allotment and assignment of payments.
- “Sec. 262. Application for annuity or other payments.
- “Sec. 263. Court orders.
- “Sec. 264. Withholding of State income taxes.
- “Sec. 265. Tax treatment of the Social Security Investment Trust Fund.
- “Sec. 266. Administration.

Sec. 3. Financing of Government contributions to accounts.

Sec. 4. Tax treatment of individual retirement investment program and personal Social Security investment accounts.

1 **SEC. 2. INDIVIDUAL RETIREMENT INVESTMENT PROGRAM**
 2 **AND PERSONAL SOCIAL SECURITY INVEST-**
 3 **MENT ACCOUNTS.**

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

6 (1) by inserting before section 201 the fol-
 7 lowing:

8 **“PART A—INSURANCE BENEFITS”;**

9 and

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

11 **“PART B—INDIVIDUAL RETIREMENT**
 12 **INVESTMENT PROGRAM**

13 **“SEC. 251. DEFINITIONS.**

14 “For purposes of this part—

1 “(1) ACCOUNT HOLDER.—The term ‘account
2 holder’ means an individual for whom a personal So-
3 cial Security investment account is established under
4 section 252(b).

5 “(2) INVESTMENT ACCOUNT.—The term ‘in-
6 vestment account’ means a personal Social Security
7 investment account established under section 252(b).

8 “(3) TRUST FUND.—The term ‘Trust Fund’
9 means the Social Security Investment Trust Fund
10 established under section 260.

11 “(4) EXECUTIVE DIRECTOR.—The term ‘Execu-
12 tive Director’ means the Executive Director under
13 this part authorized to so serve under section
14 266(b).

15 “(5) BOARD.—The term ‘Board’ means the
16 Board of Trustees of the Trust Fund authorized to
17 so serve under section 266(a).

18 **“SEC. 252. PERSONAL SOCIAL SECURITY INVESTMENT AC-**
19 **COUNTS.**

20 “(a) CERTIFICATION OF NEW ACCOUNT HOLDERS.—
21 Upon the issuance of a Social Security account number
22 under section 205(e)(2) to an individual born on or after
23 January 1, 2006, the Commissioner of Social Security
24 shall certify to the Executive Director and the Secretary

1 of the Treasury the identity and Social Security account
2 number of such individual.

3 “(b) ESTABLISHMENT OF PERSONAL SOCIAL SECUR-
4 RITY INVESTMENT ACCOUNTS.—Upon receipt of any cer-
5 tification under subsection (a) with respect to an indi-
6 vidual, the Executive Director shall establish a personal
7 Social Security investment account for such individual.
8 Amounts in the Social Security Investment Trust Fund
9 shall be credited by the Executive Director to the invest-
10 ment account in accordance with this part. The investment
11 account shall be identified to the account holder by means
12 of the account holder’s Social Security account number.
13 The Executive Director shall establish an investment ac-
14 count for each account holder not later than the later of
15 January 1, 2007, or 30 days after receipt of the certifi-
16 cation with respect to the account holder.

17 “(c) INITIAL CONTRIBUTION.—Upon the establish-
18 ment of each account holder’s investment account, the
19 Secretary of the Treasury shall transfer, from amounts
20 not otherwise appropriated in the general fund of the
21 Treasury to the Trust Fund, for crediting by the Execu-
22 tive Director to such investment account under subsection
23 (b), an amount equal to \$1,000.00.

1 “(d) INVESTMENT ACCOUNT BALANCE.—The bal-
2 ance in an account holder’s investment account at any
3 time is the excess of—

4 “(1) the sum of—

5 “(A) the contribution made to the Trust
6 Fund and credited to the investment account
7 pursuant to subsection (c);

8 “(B) all contributions made to the Trust
9 Fund and credited to the investment account
10 under section 253, and

11 “(C) the total amount of the allocations
12 made to and reductions made in the investment
13 account pursuant to subsection (e), over

14 “(2) the amounts paid out of the Trust Fund
15 with respect to such individual under this part.

16 “(e) ALLOCATION OF EARNINGS AND LOSSES.—Pur-
17 suant to regulations prescribed by the Executive Director,
18 the Executive Director shall allocate to each investment
19 account an amount equal to the net earnings and net
20 losses from each investment of sums in the Trust Fund
21 which are attributable, on a pro rata basis, to sums cred-
22 ited to such investment account, reduced by an appro-
23 priate share of the administrative expenses paid out of the
24 net earnings under section 256(d), as determined by the
25 Executive Director.

1 “(f) ENGAGEMENT OF QUALIFIED PUBLIC ACCOUNT-
2 ANT.—

3 “(1) IN GENERAL.—The Executive Director
4 shall annually engage, on behalf of all account hold-
5 ers, an independent qualified public accountant, who
6 shall conduct an examination of all accounts and
7 other books and records maintained in the adminis-
8 tration of this part as the public accountant con-
9 siders necessary to enable the public accountant to
10 make the determination required by paragraph (2).
11 The examination shall be conducted in accordance
12 with generally accepted auditing standards and shall
13 involve such tests of the accounts, books, and
14 records as the public accountant considers necessary.

15 “(2) EXAMINATION AND REPORT.—The public
16 accountant conducting an examination under para-
17 graph (1) shall determine whether the accounts,
18 books, and records referred to in such paragraph
19 have been maintained in conformity with generally
20 accepted accounting principles applied on a basis
21 consistent with the manner in which such principles
22 were applied during the examination conducted
23 under such paragraph during the preceding year.
24 The public accountant shall transmit to the Board
25 and the Comptroller General of the United States a

1 report on his examination, including his determina-
2 tion under this paragraph.

3 “(3) RELIANCE ON ACTUARY’S CERTIFI-
4 CATIONS.—In making a determination under para-
5 graph (2), a public accountant may rely on the cor-
6 rectness of any actuarial matter certified by an en-
7 rolled actuary if the public accountant states his re-
8 liance in the report transmitted to the Board under
9 such paragraph.

10 “(4) DEFINITION.—For the purposes of this
11 subsection, the term ‘qualified public accountant’
12 shall have the same meaning as is provided in sec-
13 tion 103(a)(3)(D) of the Employee Retirement In-
14 come Security Act of 1974 (29 U.S.C.
15 1023(a)(3)(D)).

16 “(g) INFORMATION REQUIRED TO BE PROVIDED TO
17 ACCOUNT HOLDERS.—

18 “(1) IN GENERAL.—The Board shall prescribe
19 regulations under which each account holder shall be
20 furnished with—

21 “(A) a periodic statement relating to the
22 account holder’s investment account; and

23 “(B) a summary description of the invest-
24 ment options under section 254 covering, and
25 an evaluation of, each such option for at least

1 the 5-year period preceding the date as of
2 which such evaluation is made.

3 “(2) TIMELY PROVISION OF INFORMATION.—In-
4 formation under this subsection shall be provided at
5 least 30 calendar days before the date provided for
6 each election under section 254(f), and in a manner
7 designed to facilitate informed decisionmaking with
8 respect to each such election.

9 “(h) ASSUMPTION OF RISK.—Each account holder
10 who elects to invest in the Fixed Income Investment Fund,
11 the Common Stock Index Investment Fund, the Small
12 Capitalization Stock Index Investment Fund, or the Inter-
13 national Stock Index Investment Fund described in para-
14 graphs (2), (3), (4), and (5), respectively, of section
15 254(a) shall sign an acknowledgement prescribed by the
16 Executive Director which states that the account holder
17 understands that an investment in either such Fund is
18 made at the account holder’s risk, that the account holder
19 is not protected by the Government against any loss on
20 such investment, and that a return on such investment
21 is not guaranteed by the Government.

22 “(i) TREATMENT OF MINORS AND INCOMPETENT IN-
23 DIVIDUALS.—An election under this part to be made by
24 a minor, or an individual mentally incompetent or under
25 other legal disability, may be made by the person who is

1 constituted guardian or other fiduciary by the law of the
2 State of residence of the individual or is otherwise legally
3 vested with the care of the individual or his estate. Pay-
4 ment under this part due a minor, or an individual men-
5 tally incompetent or under other legal disability, may be
6 made to the person who is constituted guardian or other
7 fiduciary by the law of the State of residence of the claim-
8 ant or is otherwise legally vested with the care of the
9 claimant or his estate. In any case in which a guardian
10 or other fiduciary of the individual under legal disability
11 has not been appointed under the law of the State of resi-
12 dence of the individual, if any other person, in the judg-
13 ment of the Executive Director, is responsible for the care
14 of such individual, any election under this part which may
15 otherwise be made by such individual may be made by
16 such person, any payment under this part which is other-
17 wise payable to such individual may be made to such per-
18 son, and the payment of an annuity payment under this
19 part to such person bars recovery by any other person.

20 **“SEC. 253. CONTRIBUTIONS TO THE SOCIAL SECURITY IN-**
21 **VESTMENT TRUST FUND.**

22 “(a) IN GENERAL.—The Executive Director shall
23 prescribe regulations under which each individual who is
24 eligible to claim a deduction under section 224 of the In-
25 ternal Revenue Code of 1986 for contributions to a per-

1 sonal Social Security investment account shall be afforded
2 a reasonable opportunity to make contributions to the
3 Trust Fund, for crediting to such account, either from
4 time to time or under arrangements providing for regular,
5 periodic contributions. Such arrangements may include ar-
6 rangements for contributions of wages by employers on be-
7 half of employees. Any such arrangement shall also pro-
8 vide individuals a reasonable opportunity to modify the
9 amount to be contributed under this part, or to terminate
10 such contributions.

11 “(b) LIMITATION ON CONTRIBUTIONS.—Notwith-
12 standing any other provision of this section, no contribu-
13 tion may be made under this section to any account for
14 any year to the extent that such contribution, when added
15 to prior contributions to such account for such year, ex-
16 ceeds \$10,000.

17 “(c) CREDITING PROCEDURES.—Amounts contrib-
18 uted by (or on behalf of) an account holder under this
19 section shall be deposited in the Trust Fund to the credit
20 of that account holder’s investment account in accordance
21 with such procedures as the Comptroller General of the
22 United States may, in consultation with the Executive Di-
23 rector, prescribe in regulations.

1 “(d) NONFORFEITABILITY OF CONTRIBUTIONS.—All
2 contributions made under this section shall be fully non-
3 forfeitable when made.

4 **“SEC. 254. INVESTMENT OF SOCIAL SECURITY INVESTMENT**
5 **TRUST FUND.**

6 “(a) INVESTMENT FUNDS.—The Board shall estab-
7 lish—

8 “(1) a Government Securities Investment Fund
9 under which sums in the Trust Fund are invested in
10 securities of the United States Government issued as
11 provided in subsection (e);

12 “(2) a Fixed Income Investment Fund under
13 which sums in the Trust Fund are invested in—

14 “(A) insurance contracts,

15 “(B) certificates of deposit, or

16 “(C) other instruments or obligations se-
17 lected by qualified professional asset managers,
18 which return the amount invested and pay interest,
19 at a specified rate or rates, on that amount during
20 a specified period of time;

21 “(3) a Common Stock Index Investment Fund
22 as provided in subsection (b);

23 “(4) a Small Capitalizaion Stock Index Invest-
24 ment Fund as provided in subsection (c); and

1 “(5) an International Stock Index Investment
2 Fund as provided in subsection (d).

3 “(b) INDEX GOVERNING COMMON STOCK INDEX IN-
4 VESTMENT FUNDS.—

5 “(1) SELECTION OF INDEX.—The Board shall
6 select an index which is a commonly recognized
7 index comprised of common stock the aggregate
8 market value of which is a reasonably complete rep-
9 resentation of the United States equity markets.

10 “(2) PORTFOLIO DESIGN.—The Common Stock
11 Index Investment Fund shall be invested in a port-
12 folio designed to replicate the performance of the
13 index selected under paragraph (1). The portfolio
14 shall be designed such that, to the extent prac-
15 ticable, the percentage of the Common Stock Index
16 Investment Fund that is invested in each stock is
17 the same as the percentage determined by dividing
18 the aggregate market value of all shares of that
19 stock by the aggregate market value of all shares of
20 all stocks included in such index.

21 “(c) INDEX GOVERNING SMALL CAPITALIZATION
22 STOCK INDEX INVESTMENT FUNDS.—

23 “(1) SELECTION OF INDEX.—The Board shall
24 select an index which is a commonly recognized
25 index comprised of common stock the aggregate

1 market value of which represents the United States
2 equity markets, excluding the Common Stock Index
3 Investment Fund.

4 “(2) PORTFOLIO DESIGN.—The Small Capital-
5 ization Stock Index Investment Fund shall be in-
6 vested in a portfolio designed to replicate the per-
7 formance of the index selected under paragraph (1).
8 The portfolio shall be designed such that, to the ex-
9 tent practicable, the percentage of the Small Cap-
10 italization Stock Index Investment Fund that is in-
11 vested in each stock is the same as the percentage
12 determined by dividing the aggregate market value
13 of all shares of that stock by the aggregate market
14 value of all shares of all stocks included in such
15 index.

16 “(d) INDEX GOVERNING INTERNATIONAL STOCK
17 INDEX INVESTMENT FUNDS.—

18 “(1) SELECTION OF INDEX.—The Board shall
19 select an index which is a commonly recognized
20 index comprised of stock the aggregate market value
21 of which is a reasonably complete representation of
22 the international equity markets excluding the
23 United States equity markets.

24 “(2) PORTFOLIO DESIGN.—The International
25 Stock Index Investment Fund shall be invested in a

1 portfolio designed to replicate the performance of
2 the index selected under paragraph (1). The port-
3 folio shall be designed such that, to the extent prac-
4 ticable, the percentage of the International Stock
5 Index Investment Fund that is invested in each
6 stock is the same as the percentage determined by
7 dividing the aggregate market value of all shares of
8 that stock by the aggregate market value of all
9 shares of all stocks included in such index.

10 “(e) INVESTMENT ACCORDING TO ELECTIONS.—

11 “(1) IN GENERAL.—The Executive Director
12 shall invest the sums available in the Trust Fund for
13 investment as provided in elections made under sub-
14 section (f).

15 “(2) DEFAULT INVESTMENT IN ABSENCE OF
16 ELECTION.—If an election has not been made with
17 respect to any sums in the Trust Fund available for
18 investment, the Executive Director shall invest such
19 sums in the Government Securities Investment
20 Fund.

21 “(f) SEMIANNUAL ELECTIONS.—

22 “(1) IN GENERAL.—At least twice each year, an
23 account holder may elect the investment funds re-
24 ferred to in subsection (a) into which the sums in

1 the Trust Fund credited to such account holder's in-
2 vestment account are to be invested or reinvested.

3 “(2) INVESTMENT ACCORDING TO REGULA-
4 TIONS.—An election may be made under paragraph
5 (1) only in accordance with regulations prescribed by
6 the Executive Director and within such period as the
7 Executive Director shall provide in such regulations.

8 “(g) ISSUANCE OF SPECIAL OBLIGATIONS.—

9 “(1) AUTHORIZATION.—The Secretary of the
10 Treasury is authorized to issue special interest-bear-
11 ing obligations of the United States for purchase by
12 the Trust Fund for the Government Securities In-
13 vestment Fund.

14 “(2) REQUIREMENTS.—

15 “(A) IN GENERAL.—Obligations issued for
16 the purpose of this subsection shall have matu-
17 rities fixed with due regard to the needs of the
18 Trust Fund as determined by the Executive Di-
19 rector, and shall bear interest at a rate equal
20 to the average market yield (computed by the
21 Secretary of the Treasury on the basis of mar-
22 ket quotations as of the end of the calendar
23 month next preceding the date of issue of such
24 obligations) on all marketable interest-bearing
25 obligations of the United States then forming a

1 part of the public debt which are not due or
2 callable earlier than 4 years after the end of
3 such calendar month.

4 “(B) ROUNDING.—Any average market
5 yield computed under subparagraph (A) which
6 is not a multiple of one-eighth of 1 percent,
7 shall be rounded to the nearest multiple of one-
8 eighth of 1 percent.

9 “(h) NO VOTING RIGHTS IN SECURITIES.—The
10 Board, the Executive Director, and an account holder may
11 not exercise voting rights associated with the ownership
12 of securities by the Social Security Investment Trust
13 Fund.

14 **“SEC. 255. DISTRIBUTIONS FROM THE SOCIAL SECURITY IN-**
15 **VESTMENT TRUST FUND.**

16 “(a) IN GENERAL.—No distribution may be made
17 from the Social Security Investment Trust Fund of any
18 amount credited to the investment account of any account
19 holder, unless such distribution is in the form of—

20 “(1) a benefit distribution described in sub-
21 section (b),

22 “(2) a distribution described in subsection (c),
23 or

24 “(3) a death distribution under subsection (d).

25 “(b) BENEFIT DISTRIBUTION.—

1 “(1) IN GENERAL.—A distribution from an in-
2 vestment account is in the form of a benefit distribu-
3 tion referred to in subsection (a)(1) if such distribu-
4 tion constitutes payment (in whole or in part) of a
5 monthly insurance benefit under part A based on the
6 wages and self-employment income of the account
7 holder.

8 “(2) PAYMENT OF MONTHLY INSURANCE BENE-
9 FITS.—Notwithstanding section 201(h), benefit pay-
10 ments required to be made under part A, other than
11 benefit payments required to be made under section
12 223 or 226 and benefit payments required to be
13 made under subsection (b), (c), or (d) of section 202
14 to account holders entitled to benefits on the basis
15 of the wages and self-employment income of any
16 such account holder entitled to disability insurance
17 benefits, shall be made from amounts in the Trust
18 Fund credited to such account holder’s investment
19 account, except to the extent that such benefit pay-
20 ments exceed the balance credited to such account
21 holder’s investment account. Any amount of such
22 benefit payments in excess of the balance in such ac-
23 count holder’s investment account shall be payable
24 as provided in section 201(h). The Commissioner of
25 Social Security shall provide for certification to the

1 Executive Director for payment of such benefits
2 from the Trust Fund, and the Executive Director
3 shall make such payments from the Trust Fund in
4 accordance with such certification.

5 “(c) ANNUITIES AND LUMP SUM PAYMENTS.—A dis-
6 tribution referred to in subsection (a)(2) is described in
7 this subsection if—

8 “(1) the distribution is at the election of the ac-
9 count holder made (in such form and manner as
10 shall be prescribed by the Executive Director) on or
11 after the date of the commencement of such account
12 holder’s entitlement to old-age insurance benefits
13 under section 202(a),

14 “(2) the amount of each distribution is in an
15 amount, as determined by the Executive Director,
16 which is not greater than the excess of—

17 “(A) the balance credited to such account
18 holder’s investment account, over

19 “(B) the amount necessary to provide for
20 benefit distributions as required under sub-
21 section (a)(1), and

22 “(3) the distributions shall be paid in the form
23 of annuities and other payments under section 256.

24 “(d) DEATH DISTRIBUTION.—

1 “(1) IN GENERAL.—A distribution from an in-
2 vestment account is in the form of a death distribu-
3 tion if such distribution is in the amount remaining
4 credited to the account holder as of the date of such
5 account holder’s death and, except as provided in
6 paragraph (2), is distributed in the same manner as
7 is provided for distribution of benefit payments
8 under section 204(d).

9 “(2) PORTION OF ACCOUNT BALANCE ATTRIB-
10 UTABLE TO FEDERAL CONTRIBUTION RETURNED TO
11 UNITED STATES.—The portion of the amount re-
12 maining credited to the account holder as of the
13 date of such account holder’s death which is attrib-
14 utable to the contribution made under section 252(c)
15 shall be paid to the Secretary of the Treasury for
16 deposit into the general fund of the Treasury as mis-
17 cellaneous receipts. For purposes of the preceding
18 sentence, distributions from a personal social secu-
19 rity investment account shall be treated as first
20 made from amounts attributable to the contribution
21 made under section 252(c) and then from other
22 amounts.

1 **“SEC. 256. ANNUITIES AND LUMP SUM PAYMENTS PAYABLE**
2 **FROM THE SOCIAL SECURITY INVESTMENT**
3 **TRUST FUND.**

4 “(a) IN GENERAL.—An account holder who is enti-
5 tled to old-age insurance benefits under section 202(a) is
6 entitled as provided in this section to the amount of the
7 balance in the account holder’s investment account avail-
8 able for distribution under this section in accordance with
9 section 255.

10 “(b) ALTERNATIVE FORMS OF DISTRIBUTION.—Sub-
11 ject to section 258, any account holder who is entitled to
12 old-age insurance benefits under section 202(a) is entitled
13 and may elect—

14 “(1) to receive an immediate annuity from the
15 Trust Fund;

16 “(2) to defer the commencement of the pay-
17 ment of an annuity from the Trust Fund until such
18 date as the account holder specifies, but not later
19 than April 1 of the year following the year in which
20 the account holder becomes 70½ years of age;

21 “(3) to withdraw the amount of the balance in
22 the account holder’s investment account in the Trust
23 Fund in one or more substantially equal payments
24 to be made not less frequently than annually and to
25 commence before April 1 of the year following the

1 year in which the account holder becomes 70½
2 years of age; or

3 “(4) to transfer the amount of the balance in
4 the account holder’s investment account in the Trust
5 Fund to an eligible retirement plan as provided in
6 subsection (c).

7 “(c) TRANSFERS TO ELIGIBLE RETIREMENT
8 PLANS.—

9 “(1) IN GENERAL.—The Executive Director
10 shall make each transfer elected under subsection
11 (b)(4) directly to an eligible retirement plan or plans
12 (as defined in section 402(c)(8)(B) of the Internal
13 Revenue Code of 1986) identified by the account
14 holder for whom the transfer is made.

15 “(2) TRANSFER CONTINGENT UPON RECEIPT
16 OF NECESSARY INFORMATION.—A transfer may not
17 be made for an account holder under paragraph (1)
18 until the Executive Director receives from such ac-
19 count holder the information required by the Execu-
20 tive Director specifically to identify the eligible re-
21 tirement plan or plans to which the transfer is to be
22 made.

23 “(d) MODIFICATION OF ELECTIONS.—

24 “(1) IN GENERAL.—Subject to paragraph
25 (3)(A) and subsections (a) and (d) of section 258,

1 an account holder may change an election previously
2 made under this section.

3 “(2) MODIFICATION OF DATE FOR DELAYED
4 DISTRIBUTIONS.—Subject to paragraph (3)(B) and
5 section 258(d), an account holder who has made an
6 election pursuant to subsection (b)(2) may modify
7 the date specified in such election or in a previous
8 modification under this paragraph.

9 “(3) LIMITATIONS.—

10 “(A) MODIFICATIONS DISALLOWED UPON
11 COMMENCEMENT OF DISTRIBUTION.—An ac-
12 count holder may not change an election under
13 this section on or after the date on which a
14 payment is made in accordance with such elec-
15 tion or, in the case of an election to receive an
16 annuity, the date on which an annuity contract
17 is purchased to provide for the annuity elected
18 by the account holder.

19 “(B) OTHER LIMITATIONS.—A modifica-
20 tion of a date may not be made under para-
21 graph (2) on or after the date on which an an-
22 nuity contract is purchased to provide for the
23 annuity involved, and may not specify a date
24 for the commencement of an annuity earlier
25 than 90 days after the date on which the modi-

1 fication is submitted to the Executive Director
2 (or such period shorter than 90 days as the Ex-
3 ecutive Director may by regulation prescribe).

4 “(e) DEFAULT MEANS OF DISTRIBUTION.—

5 “(1) LUMP SUM DISTRIBUTIONS OF MINIMAL
6 AMOUNTS.—Notwithstanding subsection (b), if an
7 account holder becomes entitled to old-age insurance
8 benefits under section 202(a) and the balance in
9 such account holder’s investment account is \$3,500
10 or less, the Executive Director shall pay the balance
11 to the account holder in a single payment unless the
12 account holder elects, at such time and otherwise in
13 such manner as the Executive Director prescribes,
14 one of the options available under subsection (b).

15 “(2) DEFAULT ANNUITY COMMENCEMENT
16 DATE.—Unless otherwise elected under this section,
17 and subject to paragraph (1), the balance in an ac-
18 count holder’s investment account shall be paid as
19 an annuity commencing for the account holder on
20 February 1 of the year following the year in which
21 the account holder becomes entitled to old-age insur-
22 ance benefits under section 202(a).

23 **“SEC. 257. PAYMENT OF ANNUITIES.**

24 “(a) METHODS OF PAYMENT.—The Board shall pre-
25 scribe methods of payment of annuities under this part.

1 The methods of payment prescribed under this subsection
2 shall include, but not be limited to—

3 “(1) a method which provides for the payment
4 of a monthly annuity only to an annuitant during
5 the life of the annuitant;

6 “(2) a method which provides for the payment
7 of a monthly annuity to an annuitant for the joint
8 lives of the annuitant and the spouse of the annu-
9 itant and an appropriate monthly annuity to the one
10 of them who survives the other of them for the life
11 of the survivor;

12 “(3) a method described in paragraph (1) which
13 provides for automatic adjustments in the amount of
14 the annuity payable so long as the amount of the an-
15 nuity payable in any one year shall not be less than
16 the amount payable in the previous year;

17 “(4) a method described in paragraph (2) which
18 provides for automatic adjustments in the amount of
19 the annuity payable so long as the amount of the an-
20 nuity payable in any one year shall not be less than
21 the amount payable in the previous year; and

22 “(5) a method which provides for the payment
23 of a monthly annuity—

24 “(A) to the annuitant for the joint lives of
25 the annuitant and an individual who is des-

1 ignated by the annuitant under regulations pre-
2 scribed by the Executive Director and (i) is a
3 former spouse of the annuitant, or (ii) has an
4 insurable interest in the annuitant; and

5 “(B) to the one of them who survives the
6 other of them for the life of the survivor.

7 “(b) REQUIREMENT OF ELECTION.—Subject to sec-
8 tion 258(c), under such regulations as the Executive Di-
9 rector shall prescribe, an account holder who elects under
10 section 256 to receive an annuity under this part shall
11 elect, on or before the date on which an annuity contract
12 is purchased to provide for that annuity, one of the meth-
13 ods of payment prescribed under subsection (a).

14 “(c) CONTINUED PERIOD OF 5 YEARS AVAILABILITY
15 FOR ELIMINATED METHODS.—Notwithstanding an elimi-
16 nation of a method of payment by the Board, an account
17 holder may elect the eliminated method if the elimination
18 of such method became effective less than 5 years before
19 the date on which the annuity commences.

20 “(d) CONTRACTS FOR PURCHASE OF ANNUITIES.—

21 “(1) TIME LIMIT FOR ENTERING INTO CON-
22 TRACT.—Not earlier than 90 days (or such shorter
23 period as the Executive Director may by regulation
24 prescribe) before an annuity is to commence under
25 this part, the Executive Director shall expend the

1 balance in the annuitant's account to purchase an
2 annuity contract from any entity which, in the nor-
3 mal course of its business, sells and provides annu-
4 ities.

5 “(2) ASSURANCE OF PROVISION OF ANNUITY.—
6 The Executive Director shall assure, by contract en-
7 tered into with each entity from which an annuity
8 contract is purchased under paragraph (1), that the
9 annuity shall be provided in accordance with the
10 provisions of this part.

11 “(3) TERMS AND CONDITIONS.—An annuity
12 contract purchased under paragraph (1) shall in-
13 clude such terms and conditions as the Executive
14 Director requires for the protection of the annuitant.

15 “(4) BONDING.—The Executive Director shall
16 require, from each entity from which an annuity
17 contract is purchased under paragraph (1), a bond
18 or proof of financial responsibility sufficient to pro-
19 tect the annuitant.

20 “(e) EXEMPTION FROM LOCAL TAXATION OF
21 AMOUNTS PAID TO PURCHASE ANNUITIES.—

22 “(1) IN GENERAL.—No tax, fee, or other mone-
23 tary payment may be imposed or collected by any
24 State, or by any political subdivision or other gov-
25 ernmental authority thereof, on, or with respect to,

1 any amount paid to purchase an annuity contract
2 under this section.

3 “(2) TAXATION OF ISSUER PERMITTED.—Para-
4 graph (1) shall not be construed to exempt any com-
5 pany or other entity issuing an annuity contract
6 under this section from the imposition, payment, or
7 collection of a tax, fee, or other monetary payment
8 on the net income or profit accruing to or realized
9 by that entity from the sale of an annuity contract
10 under this section if that tax, fee, or payment is ap-
11 plicable to a broad range of business activity.

12 **“SEC. 258. PROTECTIONS FOR SPOUSES AND FORMER**
13 **SPOUSES.**

14 “(a) REQUIREMENT OF SPOUSAL CONSENT.—

15 “(1) IN GENERAL.—A married account holder
16 may make an election under subsection (b)(3) or
17 (b)(4) of section 256 or change an election pre-
18 viously made under subsection (b)(1) or (b)(2) of
19 such section only if the account holder and the ac-
20 count holder’s spouse jointly waive, by written elec-
21 tion, any right which the spouse may have to a sur-
22 vivor annuity with respect to such account holder
23 under section 257 or subsection (b).

24 “(2) EXCEPTION.—Paragraph (1) shall not
25 apply to an election or change of election by an ac-

1 count holder who establishes to the satisfaction of
2 the Executive Director (at the time of the election
3 or change and in accordance with regulations pre-
4 scribed by the Executive Director)—

5 “(A) that the spouse’s whereabouts cannot
6 be determined; or

7 “(B) that, due to exceptional cir-
8 cumstances, requiring the spouse’s waiver would
9 otherwise be inappropriate.

10 “(b) JOINT AND SURVIVOR ANNUITY FORM APPLIES
11 UNLESS OTHERWISE ELECTED.—

12 “(1) IN GENERAL.—Notwithstanding any elec-
13 tion under subsection (b) of section 257, the method
14 described in subsection (a)(2) of such section (or, if
15 more than one form of such method is available, the
16 form which the Board determines to be the one
17 which provides for a surviving spouse a survivor an-
18 nuity most closely approximating the annuity of a
19 surviving spouse under section 8442 of title 5,
20 United States Code) shall be deemed the applicable
21 method under such subsection (b) in the case of an
22 account holder who is married on the date on which
23 an annuity contract is purchased to provide for the
24 account holder’s annuity under this part.

1 “(2) EXCEPTION.—Paragraph (1) shall not
2 apply if—

3 “(A) a joint waiver of such method is
4 made, in writing, by the account holder and the
5 spouse; or

6 “(B) the account holder waives such meth-
7 od, in writing, after establishing to the satisfac-
8 tion of the Executive Director that cir-
9 cumstances described under subsection (a)(2)
10 (A) or (B) make the requirement of a joint
11 waiver inappropriate.

12 “(c) ELECTIONS AND OTHER CHANGES SUBJECT TO
13 COURT ORDERS.—

14 “(1) IN GENERAL.—An election, change of elec-
15 tion, or modification of the commencement date of
16 a deferred annuity shall not be effective under this
17 part to the extent that the election, change, modi-
18 fication, or transfer conflicts with any court decree,
19 order, or agreement described in paragraph (2).

20 “(2) REQUIREMENTS.—A court decree, order,
21 or agreement referred to in paragraph (1) is, with
22 respect to an account holder, a court decree of di-
23 vorce, annulment, or legal separation issued in the
24 case of the account holder and any former spouse of
25 the account holder or any court order or court-ap-

1 proved property settlement agreement incident to
2 the decree if—

3 “(A) the decree, order, or agreement ex-
4 pressly relates to any portion of the balance in
5 the account holder’s investment account; and

6 “(B) notice of the decree, order, or agree-
7 ment was received by the Executive Director be-
8 fore—

9 “(i) the date on which payment is
10 made, or

11 “(ii) in the case of an annuity, the
12 date on which an annuity contract is pur-
13 chased to provide for the annuity,

14 in accordance with the election, change, modi-
15 fication, or contribution referred to in para-
16 graph (1).

17 “(3) TREATMENT OF 2 OR MORE COURT OR-
18 DERS.—The Executive Director shall prescribe regu-
19 lations under which this subsection shall be applied
20 in any case in which the Executive Director receives
21 two or more decrees, orders, or agreements referred
22 to in paragraph (1).

23 “(d) RIGHTS OF FORMER SPOUSES.—

24 “(1) IN GENERAL.—Subject to paragraphs (2)
25 through (7), a former spouse of a deceased account

1 holder who died as a fully insured individual is enti-
2 tled to a survivor annuity under this subsection if
3 and to the extent that—

4 “(A) an election under section 257(a)(5),

5 or

6 “(B) any court decree, order, or agreement
7 (described in subsection (c)(2), without regard
8 to subparagraph (B) of such subsection) which
9 relates to such deceased account holder and
10 such former spouse,

11 expressly provides for such survivor annuity.

12 “(2) WRITTEN NOTICE REQUIRED.—Paragraph
13 (1) shall apply only to payments made by the Execu-
14 tive Director after the date on which the Executive
15 Director receives written notice of the election, de-
16 cree, order, or agreement, and such additional infor-
17 mation and documentation as the Executive Director
18 may require.

19 “(3) LIMITATION ON AMOUNT.—The amount of
20 the survivor annuity payable from the Trust Fund
21 to a former spouse of a deceased account holder
22 under this section may not exceed the excess, if any,
23 of—

24 “(A) the amount of the survivor annuity
25 determined for a surviving spouse of the de-

1 ceased account holder under the method de-
2 scribed in subsection (b)(1), over

3 “(B) the total amount of all other survivor
4 annuities payable under this part to other
5 former spouses of such deceased account holder
6 based on the order of precedence provided in
7 paragraph (4).

8 “(4) ORDER OF PRECEDENCE.—If more than
9 one former spouse of a deceased account holder is
10 entitled to a survivor annuity pursuant to this sub-
11 section, the amount of each such survivor annuity
12 shall be limited appropriately to carry out paragraph
13 (3) in the order of precedence established for the en-
14 titlements by the chronological order of the dates on
15 which elections are properly made pursuant to sec-
16 tion 257(a)(5) and the dates on which the court de-
17 crees, orders, or agreements applicable to the entitle-
18 ment were issued, as the case may be.

19 “(5) RULES FOR COMMENCEMENT AND TERMI-
20 NATION UNDER COURT ORDERS.—The commence-
21 ment and termination of an annuity payable under
22 this section shall be governed by the terms of the ap-
23 plicable order, decree, agreement, or election, as the
24 case may be, except that any such annuity—

25 “(A) shall not commence before—

1 “(i) the day after the account holder
2 dies; or

3 “(ii) the first day of the second month
4 beginning after the date on which the Ex-
5 ecutive Director receives written notice of
6 the order, decree, agreement, or election,
7 as the case may be, together with such ad-
8 ditional information or documentation as
9 the Executive Director may prescribe;

10 whichever is later; and

11 “(B) shall terminate no later than the last
12 day of the month before the former spouse re-
13 marries before becoming 55 years of age or
14 dies.

15 “(6) RESTRICTION ON MODIFICATIONS.—For
16 purposes of this part, a modification in a decree,
17 order, agreement, or election referred to in this sec-
18 tion shall not be effective—

19 “(A) if such modification is made after the
20 retirement or death of the account holder or an-
21 nuitant concerned; and

22 “(B) to the extent that such modification
23 involves an annuity under this part.

24 “(7) COURT ORDERS SUBJECT TO PREVIOUS
25 JOINT WAIVERS.—For the purposes of this section,

1 a court decree, order, or agreement or an election re-
2 ferred to in subsection (a) shall not be effective, in
3 the case of a former spouse, to the extent that the
4 election is inconsistent with any joint waiver pre-
5 viously executed with respect to such former spouse
6 under subsection (a)(2) or (b)(2).

7 “(8) EXCLUSIVE RECOVERY.—Any payment
8 under this subsection to any individual bars recovery
9 by any other individual.

10 “(e) WAIVERS AND MODIFICATIONS SUBJECT TO
11 PRESCRIBED PROCEDURES.—Waivers and notifications
12 required by this section and waivers of the requirements
13 for such waivers and notifications (as authorized by this
14 section) may be made only in accordance with procedures
15 prescribed by the Executive Director.

16 “(f) INAPPLICABILITY TO MINIMAL ACCOUNT BAL-
17 ANCES.—None of the provisions of this section requiring
18 notification to, or the consent or waiver of, a spouse or
19 former spouse of an account holder shall apply in any case
20 in which the balance in the account holder’s investment
21 account is \$3,500 or less.

22 “(g) APPLICABLE COURT ORDERS.—The protections
23 provided by this section are in addition to the protections
24 provided by section 263.

1 **“SEC. 259. ADMINISTRATIVE PROVISIONS.**

2 “(a) PAYMENTS AND TRANSFERS IN ACCORDANCE
3 WITH ELECTION.—The Executive Director shall make or
4 provide for payments and transfers in accordance with an
5 election of an account holder under section 256 or 257(b)
6 or, if applicable, in accordance with section 258.

7 “(b) ELECTIONS AND MODIFICATIONS OF DEFERRED
8 COMMENCEMENT DATES IN WRITING.—Any election,
9 change of election, or modification of a deferred annuity
10 commencement date made under this part shall be in writ-
11 ing and shall be filed with the Executive Director in ac-
12 cordance with regulations prescribed by the Executive Di-
13 rector.

14 **“SEC. 260. SOCIAL SECURITY INVESTMENT TRUST FUND.**

15 “(a) IN GENERAL.—There is established in the
16 Treasury of the United States a Social Security Invest-
17 ment Trust Fund.

18 “(b) AMOUNT COMPRISING THE TRUST FUND.—The
19 Trust Fund consists of the sum of all amounts contributed
20 under sections 252(c) and 253, increased by the total net
21 earnings from investments of sums in the Trust Fund
22 under section 254 or reduced by the total net losses from
23 investments of the Trust Fund under such section, and
24 reduced by the total amount of payments made from the
25 Trust Fund (including payments for administrative ex-
26 penses).

1 “(c) APPROPRIATION OF TRUST FUND AMOUNTS.—

2 The sums in the Trust Fund are appropriated and shall

3 remain available without fiscal year limitation—

4 “(1) to invest under section 254;

5 “(2) to make distributions or purchase annuity
6 contracts under this part;

7 “(3) to pay the administrative expenses in-
8 curred in carrying out this part under subsection
9 (d); and

10 “(4) to purchase insurance as provided in sub-
11 section (h)(3)(B).

12 “(d) ADMINISTRATIVE EXPENSES.—Administrative
13 expenses incurred to carry out this part shall be paid out
14 of net earnings in the Trust Fund.

15 “(e) ASSIGNMENT OR ALIENATION AND RELATED
16 MATTERS.—

17 “(1) EXCLUSIVE BENEFIT OF THE ACCOUNT
18 HOLDER.—Subject to subsection (d) and paragraphs
19 (2) and (3), sums in the Trust Fund credited to the
20 account of any account holder may not be used for,
21 or diverted to, purposes other than for the exclusive
22 benefit of the account holder or other persons to
23 whom distributions are made under section 255.

24 “(2) IMMUNITY FROM ASSIGNMENT, ALIEN-
25 ATION, AND CERTAIN OTHER LEGAL PROCESS.—EX-

1 cept as provided in paragraph (3), sums in the
2 Trust Fund may not be assigned or alienated and
3 are not subject to execution, levy, attachment, gar-
4 nishment, or other legal process.

5 “(3) EXCEPTIONS.—Moneys due or payable
6 from the Trust Fund to any person and, in the case
7 of an account holder, the balance in the individual
8 account of the account holder, shall be subject to
9 legal process for the enforcement of the legal obliga-
10 tions of such person or account holder to provide
11 child support or make alimony payments as provided
12 in section 459 or relating to the enforcement of a
13 judgment for physically, sexually, or emotionally
14 abusing a child as provided under section 263.

15 “(f) EXCLUSIVE APPROPRIATION.—The sums in the
16 Trust Fund shall not be appropriated for any purpose
17 other than the purposes specified in this section and may
18 not be used for any other purpose.

19 “(g) CONTRIBUTIONS AND EARNINGS HELD IN
20 TRUST FOR ACCOUNT HOLDERS.—All sums contributed
21 to the Trust Fund by an account holder and all net earn-
22 ings in the Trust Fund attributable to investment of such
23 sums are held in the Trust Fund in trust for such account
24 holder.

1 “(h) FIDUCIARY RESPONSIBILITIES; ENFORCEMENT
2 UNDER THE SECRETARY OF LABOR.—

3 “(1) IN GENERAL.—Under regulations of the
4 Secretary of Labor, the provisions of sections 8477
5 and 8478 of title 5, United States Code, shall apply
6 in connection with the Trust Fund in the same man-
7 ner and to the same extent as such provisions apply
8 in connection with the Thrift Savings Fund.

9 “(2) INVESTIGATIVE AUTHORITY.—Any author-
10 ity available to the Secretary of Labor under section
11 504 of the Employee Retirement Income Security
12 Act of 1974 is hereby made available to the Sec-
13 retary of Labor, and any officer designated by the
14 Secretary of Labor, to determine whether any person
15 has violated, or is about to violate, any provision ap-
16 plicable under paragraph (1).

17 “(3) EXCULPATORY PROVISIONS; INSURANCE.—

18 “(A) IN GENERAL.—Any provision in an
19 agreement or instrument which purports to re-
20 lieve a fiduciary from responsibility or liability
21 for any responsibility, obligation, or duty under
22 this part shall be void.

23 “(B) INSURANCE.—The Trust Fund shall
24 be available and may be used at the discretion
25 of the Executive Director to purchase insurance

1 to cover potential liability of persons who serve
2 in a fiduciary capacity with respect to the Trust
3 Fund, without regard to whether a policy of in-
4 surance permits recourse by the insurer against
5 the fiduciary in the case of a breach of a fidu-
6 ciary obligation.

7 **“SEC. 261. WAIVER, ALLOTMENT AND ASSIGNMENT OF PAY-**
8 **MENTS.**

9 “(a) WAIVER OF ENTITLEMENT.—An individual enti-
10 tled to an annuity or other payment payable from the
11 Trust Fund may decline to accept all or any part of the
12 amount of the payment by a waiver signed and filed with
13 the Executive Director. The waiver may be revoked in
14 writing at any time. Payment of the annuity waived may
15 not be made for the period during which the waiver is in
16 effect.

17 “(b) ALLOTMENTS OR ASSIGNMENTS.—An individual
18 entitled to an annuity or other payment payable from the
19 Trust Fund may make allotments or assignments of
20 amounts from the annuity or other payment for such pur-
21 poses as the Executive Director considers appropriate.

22 **“SEC. 262. APPLICATION FOR ANNUITY OR OTHER PAY-**
23 **MENTS.**

24 “(a) APPLICATIONS REQUIRED.—No payment of an
25 annuity or other payment from the Social Security Invest-

1 ment Trust Fund under this part may be made unless an
2 application for payment of the annuity or other payment
3 is received by the Executive Director before the one hun-
4 dred and fifteenth anniversary of the birth of the account
5 holder.

6 “(b) APPLICATIONS WITH RESPECT TO DECEASED
7 ACCOUNT HOLDERS.—Notwithstanding subsection (a),
8 after the death of an account holder, a payment of the
9 annuity or other payment shall not be paid unless an ap-
10 plication therefor is received by the Executive Director
11 within 30 years after the death or other event which estab-
12 lishes the entitlement to the annuity or other payment.

13 **“SEC. 263. COURT ORDERS.**

14 “(a) ALTERNATIVE PAYEES UNDER COURT OR-
15 DERS.—Payments under this part which would otherwise
16 be made to an account holder or an annuitant shall be
17 paid (in whole or in part) by the Executive Director to
18 another person if and to the extent expressly provided for
19 in the terms of—

20 “(1) any court decree of divorce, annulment, or
21 legal separation, or the terms of any court order or
22 court-approved property settlement agreement inci-
23 dent to any court decree of divorce, annulment, or
24 legal separation; or

1 “(2) any court order or other similar process in
2 the nature of garnishment for the enforcement of a
3 judgment rendered against such account holder or
4 annuitant, for physically, sexually, or emotionally
5 abusing a child.

6 In the event that the Executive Director, as the case may
7 be, is served with more than 1 decree, order, or other legal
8 process with respect to the same moneys due or payable
9 to any individual, such moneys shall be available to satisfy
10 such processes on a first-come, first-served basis, with any
11 such process being satisfied out of such moneys as remain
12 after the satisfaction of all such processes which have been
13 previously served.

14 “(b) WRITTEN NOTICE REQUIREMENTS.—Sub-
15 section (a) shall apply only to payments made by the Exec-
16 utive Director under this part after the date on which the
17 Executive Director receives written notice of such decree,
18 order, other legal process, or agreement, and such addi-
19 tional information and documentation as the Executive
20 Director may require.

21 “(c) DEFINITIONS.—For the purpose of this sec-
22 tion—

23 “(1) the term ‘judgment rendered for phys-
24 ically, sexually, or emotionally abusing a child’
25 means any legal claim perfected through a final en-

1 forceable judgment, which claim is based in whole or
2 in part upon the physical, sexual, or emotional abuse
3 of a child, whether or not that abuse is accompanied
4 by other actionable wrongdoing, such as sexual ex-
5 ploitation or gross negligence; and

6 “(2) the term ‘child’ means an individual under
7 18 years of age.

8 **“SEC. 264. WITHHOLDING OF STATE INCOME TAXES.**

9 “(a) WITHHOLDING AGREEMENTS.—The Executive
10 Director shall, in accordance with this section, enter into
11 an agreement with any State within 120 days of a request
12 for agreement from the proper State official. The agree-
13 ment shall provide that the Executive Director shall with-
14 hold State income tax in the case of the monthly annuity
15 of any annuitant who voluntarily requests, in writing, such
16 withholding. The amounts withheld during any calendar
17 quarter shall be held in the Trust Fund and disbursed
18 to the States during the month following that calendar
19 quarter.

20 “(b) NO MULTIPLE REQUESTS.—An annuitant may
21 have in effect at any time only one request for withholding
22 under this section, and an annuitant may not have more
23 than two such requests in effect during any one calendar
24 year.

1 “(c) CHANGES AND REVOCATIONS.—Subject to sub-
2 section (b), an annuitant may change the State designated
3 by that annuitant for purposes of having withholdings
4 made, and may request that the withholdings be remitted
5 in accordance with such change. An annuitant also may
6 revoke any request of that annuitant for withholding. Any
7 change in the State designated or revocation is effective
8 on the first day of the month after the month in which
9 the request or the revocation is processed by the Executive
10 Director, but in no event later than on the first day of
11 the second month beginning after the day on which such
12 request or revocation is received by the Executive Direc-
13 tor.

14 “(d) RESERVATIONS TO THE UNITED STATES; RE-
15 PAYMENTS OF ERRONEOUS WITHHOLDINGS.—This sec-
16 tion does not give the consent of the United States to the
17 application of a statute which imposes more burdensome
18 requirements on the United States than on employers gen-
19 erally, or which subjects the United States or any annu-
20 itant to a penalty or liability because of this section. The
21 Executive Director may not accept pay from a State for
22 services performed in withholding State income taxes from
23 annuities. Any amount erroneously withheld from an an-
24 nuity and paid to a State by the Executive Director shall

1 be repaid by the State in accordance with regulations
2 issued by the Executive Director.

3 “(e) DEFINITION.—For the purpose of this section,
4 the term ‘annuitant’ includes a survivor who is receiving
5 an annuity from the Trust Fund.

6 **“SEC. 265. TAX TREATMENT OF THE SOCIAL SECURITY IN-**
7 **VESTMENT TRUST FUND.**

8 “The Trust Fund shall be exempt from taxation
9 under subtitle A of the Internal Revenue Code of 1986.

10 **“SEC. 266. ADMINISTRATION.**

11 “(a) BOARD OF TRUSTEES.—

12 “(1) IN GENERAL.—The Federal Retirement
13 Thrift Investment Board established by section
14 8472(a) of title 5, United States Code, shall also
15 serve as the Board of Trustees of the Social Security
16 Investment Trust Fund.

17 “(2) DUTIES.—It shall be the duty of the
18 Board to—

19 “(A) hold the Trust Fund;

20 “(B) report to the Congress not later than
21 the first day of April of each year on the oper-
22 ation and status of the Trust Fund during the
23 preceding fiscal year and on its expected oper-
24 ation and status during the next ensuing 5 fis-
25 cal years;

1 “(C) develop investment policies which pro-
2 vide for—

3 “(i) prudent investments suitable for
4 accumulating funds for payment of retire-
5 ment income, and

6 “(ii) low administrative costs;

7 “(D) recommend improvements in adminis-
8 trative procedures and policies designed to ef-
9 fectuate the proper coordination of the program
10 established under this part with the old-age,
11 survivors, and disability insurance program es-
12 tablished under part A; and

13 “(E) review the general policies followed in
14 managing the Trust Fund and recommend
15 changes in such policies, including necessary
16 changes in the provisions of the law which gov-
17 ern the way in which the Trust Funds are to
18 be managed and invested.

19 “(b) EXECUTIVE DIRECTOR.—

20 “(1) IN GENERAL.—The Executive Director ap-
21 pointed under section 8474(a) of title 5, United
22 States Code, shall also serve as Executive Director
23 under this part.

24 “(2) DUTIES.—The Executive Director shall—

1 “(A) carry out the policies established by
2 the Board under this part;

3 “(B) invest and manage the Trust Fund in
4 accordance with the investment policies and
5 other policies established by the Board under
6 this part;

7 “(C) purchase annuity contracts and pro-
8 vide for the payment of other benefits under
9 this part;

10 “(D) administer the provisions of this part;
11 and

12 “(E) prescribe such regulations (other
13 than regulations relating to fiduciary respon-
14 sibilities) as may be necessary for the adminis-
15 tration of this part.

16 “(3) AUTHORIZED FUNCTIONS.—The Executive
17 Director may—

18 “(A) prescribe such regulations as may be
19 necessary to carry out the responsibilities of the
20 Executive Director under this part, other than
21 regulations relating to fiduciary responsibilities;

22 “(B) appoint such personnel as may be
23 necessary to carry out the provisions of this
24 part;

1 “(C) subject to approval by the Board,
2 procure the services of experts and consultants
3 under section 3109 of title 5, United States
4 Code;

5 “(D) secure directly from other agencies
6 and instrumentalities of the Federal Govern-
7 ment any information necessary to carry out
8 the provisions of this part and policies of the
9 Board under this part;

10 “(E) make such payments out of sums in
11 the Trust Fund as the Executive Director de-
12 termines are necessary to carry out the provi-
13 sions of this part and the policies of the Board
14 under this part;

15 “(F) pay the compensation, per diem, and
16 travel expenses of individuals appointed under
17 subparagraphs (B), (C), and (G) from the
18 Trust Fund;

19 “(G) accept and use the services of individ-
20 uals employed intermittently in the Government
21 service and reimburse such individuals for trav-
22 el expenses, as authorized by section 5703 of
23 title 5, United States Code, including per diem
24 as authorized by section 5702 of such title;

1 “(H) except as otherwise expressly prohib-
2 ited by law or the policies of the Board, dele-
3 gate any of the Executive Director’s functions
4 to such employees under the Board as the Ex-
5 ecutive Director may designate and authorize
6 such successive redelegations of such functions
7 to such employees under the Board as the Ex-
8 ecutive Director may consider to be necessary
9 or appropriate; and

10 “(I) take such other actions as are appro-
11 priate to carry out the functions of the Execu-
12 tive Director.

13 “(c) SOURCE OF COMPENSATION.—Notwithstanding
14 paragraph (3) of section 8476(d) of title 5, United States
15 Code, basic pay paid for any fiscal year as compensation
16 to each member of the Board (and each officer and em-
17 ployee of the Board) shall be paid from the Trust Fund
18 (in lieu of the Thrift Savings Fund) in an amount which
19 bears the same ratio to the total amount of basic pay paid
20 to such member (or officer or employee) for such fiscal
21 year as the balance in the Trust Fund as of the beginning
22 of such fiscal year bears to the total amount of such bal-
23 ance and the balance in the Thrift Savings Fund as of
24 the beginning of such fiscal year.”.

1 (b) CONFORMING AMENDMENTS.—Section 201(h) of
2 such Act (42 U.S.C. 401(h)) is amended—

3 (1) by striking “All other” in the second sen-
4 tence and inserting “Except as provided in section
5 255, all other”; and

6 (2) by adding at the end the following new sen-
7 tence: “Any reference in this part to benefits under
8 this title shall be deemed a reference to benefits en-
9 titlement to which arises under this part.”.

10 (c) EFFECTIVE DATE.—The amendments made by
11 this section shall apply with respect to payments of old-
12 age insurance benefits for months after December 2006.

13 **SEC. 3. FINANCING OF GOVERNMENT CONTRIBUTIONS TO**
14 **ACCOUNTS.**

15 (a) PRIMARY FINANCING FROM SOCIAL SECURITY
16 CONTRIBUTIONS OF INDIVIDUALS WORKING ILLEGALLY
17 IN THE UNITED STATES.—Section 201(a) of the Social
18 Security Act (42 U.S.C. 401(a)) is amended, in the matter
19 following clause (4)—

20 (1) by striking “The amounts appropriated by
21 clauses (3) and (4)” and inserting the following: “So
22 much of the amounts described in clauses (3) and
23 (4) for any fiscal year as are attributable to wages
24 paid to, and self-employment income derived by, in-
25 dividuals with respect to whom the criterion speci-

1 fied in section 214(c) is not satisfied in determining
2 such individuals' quarters of coverage, as determined
3 by the Secretary of the Treasury in consultation
4 with the Commissioner of Social Security, shall be
5 reduced by the amounts equivalent to the aggregate
6 of initial contributions to investment accounts made
7 during such fiscal year pursuant to section 252(c).
8 The amounts appropriated by clauses (3) and (4)";

9 (2) by inserting "and initial contributions to in-
10 vestment accounts to be made pursuant to section
11 252(c)" after "paid to or deposited into the Treas-
12 ury"; and

13 (3) by striking "the taxes specified in such
14 clauses (3) and (4) of this subsection" and inserting
15 "the amounts required to be transferred".

16 (b) SECONDARY FINANCING FROM TAXES ON SOCIAL
17 SECURITY BENEFITS.—Section 121(e) of the Social Secu-
18 rity Amendments of 1983 (42 U.S.C. 401 note) is amend-
19 ed—

20 (1) by striking "less (ii) the amounts" in para-
21 graph (1) and inserting "less (ii) the sum of (I) the
22 amounts";

23 (2) by inserting before the period at the end of
24 paragraph (1) the following: " , and (II) the amounts
25 equivalent to the excess (if any) of the aggregate of

1 initial contributions to investment accounts to be
2 made pursuant to section 252(c) of the Social Secu-
3 rity Act for any fiscal year over the amount of the
4 reduction for such fiscal year described in the first
5 sentence following clause (4) of section 201(a) of the
6 Social Security Act”; and

7 (3) by inserting before the period at the end of
8 the second sentence of paragraph (2) the following:
9 “and initial contributions to investment accounts
10 pursuant to section 252(c) of the Social Security Act
11 estimated to be made during such quarter”.

12 **SEC. 4. TAX TREATMENT OF INDIVIDUAL RETIREMENT IN-**
13 **VESTMENT PROGRAM AND PERSONAL SO-**
14 **CIAL SECURITY INVESTMENT ACCOUNTS.**

15 (a) SOCIAL SECURITY INVESTMENT TRUST FUND.—
16 Section 7701 of the Internal Revenue Code of 1986 (relat-
17 ing to definitions) is amended by redesignating subsection
18 (o) as subsection (p) and by inserting after subsection (n)
19 the following new subsection:

20 “(o) TAX TREATMENT OF THE SOCIAL SECURITY IN-
21 VESTMENT TRUST FUND.—The Social Security Invest-
22 ment Trust Fund established under section 260 of the So-
23 cial Security Act shall be exempt from taxation under sub-
24 title A of the Internal Revenue Code of 1986.”.

1 (b) PERSONAL SOCIAL SECURITY INVESTMENT AC-
2 COUNTS.—Part VII of subchapter B of chapter 1 of such
3 Code (relating to additional itemized deductions for indi-
4 viduals) is amended by redesignating section 224 as sec-
5 tion 225 and by inserting after section 223 the following
6 new section:

7 **“SEC. 224. PERSONAL SOCIAL SECURITY INVESTMENT AC-**
8 **COUNTS.**

9 “(a) ALLOWANCE OF DEDUCTION.—In the case of an
10 individual, there shall be allowed as a deduction for the
11 taxable year an amount equal to the amount contributed
12 in cash for such taxable year to the personal social security
13 investment account of any eligible individual.

14 “(b) MAXIMUM AMOUNT OF DEDUCTION.—

15 “(1) IN GENERAL.—The amount allowable as a
16 deduction under subsection (a) for any taxable year
17 for contributions to the personal social security in-
18 vestment account of an eligible individual shall not
19 exceed \$5,000.

20 “(2) SPECIAL RULE.—If the account holder of
21 any personal social security investment account
22 makes a contribution to such account for any tax-
23 able year, no other taxpayer shall be allowed a de-
24 duction for any amount contributed to such account
25 for such taxable year.

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

2 “(1) PERSONAL SOCIAL SECURITY INVESTMENT
3 ACCOUNT.—The term ‘personal social security in-
4 vestment account’ means an account established
5 under section 252 of the Social Security Act.

6 “(2) ELIGIBLE INDIVIDUAL.—The term ‘eligible
7 individual’ means, with respect to the taxpayer—

8 “(A) the taxpayer,

9 “(B) the taxpayer’s spouse, and

10 “(C) any individual with respect to whom
11 a deduction under section 151(c) (determined
12 without regard to subsections (b)(1), (b)(2),
13 and (d)(1)(B) thereof) is allowed to the tax-
14 payer.

15 Subparagraph (B) shall not apply unless the tax-
16 payer files a joint return for the taxable year.

17 “(d) TAX TREATMENT OF DISTRIBUTIONS.—

18 “(1) IN GENERAL.—Except as otherwise pro-
19 vided in this subsection, any amount paid or distrib-
20 uted out of a personal social security investment ac-
21 count shall be included in gross income by the payee
22 or distributee, as the case may be, in the manner
23 provided under section 72.

1 “(2) SPECIAL RULES FOR APPLYING SECTION
2 72.—For purposes of applying section 72 to any
3 amount described in paragraph (1)—

4 “(A) all personal social security investment
5 accounts of the same individual shall be treated
6 as 1 contract,

7 “(B) all distributions during any taxable
8 year shall be treated as 1 distribution, and

9 “(C) the value of the contract, income on
10 the contract, and investment in the contract
11 shall be computed as of the close of the cal-
12 endar year in which the taxable year begins.

13 For purposes of subparagraph (C), the value of the
14 contract shall be increased by the amount of any dis-
15 tributions during the calendar year.

16 “(3) TREATMENT OF DISTRIBUTIONS OF SO-
17 CIAL SECURITY BENEFITS.—

18 “(A) IN GENERAL.—Notwithstanding para-
19 graph (1), the amount of any benefit distribu-
20 tion described in section 255(b) of the Social
21 Security Act shall be included in gross income
22 (to the extent provided in section 86) as if such
23 distribution were a social security benefit (as
24 defined in section 86).

1 “(B) ALLOCATION OF INVESTMENT IN THE
2 CONTRACT.—For purposes of section 72, the
3 portion of the account which the Executive Di-
4 rector (as defined in section 251 of the Social
5 Security Act) determines is necessary to fund
6 the benefit distributions referred to in subpara-
7 graph (A) for the taxable year and all suc-
8 ceeding taxable years shall be treated as a sepa-
9 rate contract with respect to which no premium
10 or other consideration was paid.

11 “(4) CROSS REFERENCE.—For excise tax on
12 certain distributions, see section 72(t).

13 “(e) SPECIAL RULES.—

14 “(1) TIME WHEN CONTRIBUTIONS DEEMED
15 MADE.—For purposes of this section, a taxpayer
16 shall be deemed to have made a contribution to a
17 personal social security investment account on the
18 last day of the preceding taxable year if the con-
19 tribution is made on account of such taxable year
20 and is made not later than the time prescribed by
21 law for filing the return for such taxable year (not
22 including extensions thereof).

23 “(2) BENEFICIARY MUST BE UNDER AGE
24 70½.—No deduction shall be allowed under this sec-
25 tion with respect to any contribution to a personal

1 social security investment account if the account
2 holder has attained age 70½ before the close of
3 such holder’s taxable year for which the contribution
4 was made.”.

5 (c) DEDUCTION ALLOWED WHETHER OR NOT TAX-
6 PAYER ITEMIZES OTHER DEDUCTIONS.—Subsection (a)
7 of section 62 of such Code is amended—

8 (1) by redesignating the second paragraph (19)
9 as paragraph (20); and

10 (2) by inserting after paragraph (20) (as redesi-
11 gnated) the following new paragraph:

12 “(21) PERSONAL SOCIAL SECURITY INVEST-
13 MENT ACCOUNT CONTRIBUTIONS.—The deduction
14 allowed by section 224.”.

15 (d) CONFORMING AMENDMENTS.—

16 (1) PENALTY FOR FAILURE TO MEET MINIMUM
17 DISTRIBUTION REQUIREMENT.—Subsection (c) of
18 section 4974 of such Code is amended by striking
19 “or” at the end of paragraph (4), by striking the pe-
20 riod at the end of paragraph (5) and inserting “,
21 or”, and by inserting after paragraph (5) the fol-
22 lowing new paragraph:

23 “(6) any personal social security investment ac-
24 count (as defined in section 224(c)).”.

1 (2) TREATMENT LIKE INDIVIDUAL RETIREMENT
2 PLAN UNDER EXCISE TAX ON CERTAIN PREMATURE
3 DISTRIBUTIONS.—Subparagraph (A) of section
4 72(t)(3) of such Code is amended—

5 (A) by inserting “or from a personal social
6 security investment account (as defined in sec-
7 tion 224(c))” before the period at the end, and

8 (B) by inserting “OR FROM PERSONAL SO-
9 CIAL SECURITY INVESTMENT ACCOUNTS” after
10 “PLANS” in the subparagraph heading.

11 (e) CLERICAL AMENDMENT.—The table of sections
12 for part VII of subchapter B of chapter 1 of such Code
13 is amended by redesignating the item relating to section
14 224 as an item relating to section 225 and by inserting
15 after the item relating to section 223 the following new
16 item:

“Sec. 224. Personal Social Security investment accounts.”.

17 (f) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to taxable years beginning after
19 December 31, 2006.

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