

109TH CONGRESS  
1ST SESSION

# S. 857

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 SENATE OF THE UNITED STATES

APRIL 20, 2005

Mr. SUNUNU (for himself, Mr. BROWNBACK, and Mr. DEMINT) introduced the following bill; which was read twice and referred to the Committee on Finance

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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”.

7       (b) **TABLE OF CONTENTS.**—The table of contents is  
8       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—

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

3 **“PART A—INSURANCE BENEFITS”;**

4 and

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

6 **“PART B—PERSONAL SOCIAL SECURITY SAVINGS**

7 **PROGRAM**

8 **“SEC. 251. DEFINITIONS.**

9 “For purposes of this part—

10 “(1) PARTICIPATING INDIVIDUAL.—The term  
11 ‘participating individual’ has the meaning provided  
12 in section 253(a).

13 “(2) BOARD.—The term ‘Board’ means the  
14 Personal Social Security Savings Board established  
15 under section 260.

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

19 “(4) PERSONAL SOCIAL SECURITY SAVINGS AC-  
20 COUNT.—The term ‘personal social security savings  
21 account’ means an account established under section  
22 254(a).

23 “(5) PERSONAL SOCIAL SECURITY SAVINGS AN-  
24 NUIITY.—The term ‘personal social security savings

1 annuity’ means an annuity approved by the Board  
2 under section 258(b)(3).

3 “(6) SAVINGS FUND.—The term ‘Savings Fund’  
4 means the Social Security Personal Savings Fund  
5 established under section 252.

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

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

12 “(9) TIER III INVESTMENT OPTION.—The term  
13 ‘Tier III Investment Option’ means an investment  
14 option which is—

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

17 “(B) approved by the Board under section  
18 257(c).

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

20 “(a) ESTABLISHMENT OF SAVINGS FUND.—

21 “(1) ESTABLISHMENT.—There is established in  
22 the Treasury of the United States a trust fund to  
23 be known as the ‘Social Security Personal Savings  
24 Fund’.

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

3           “(A) all amounts transferred to or depos-  
4 ited into the Savings Fund under subsection  
5 (b), increased by the total net earnings from in-  
6 vestments of sums in the Savings Fund attrib-  
7 utable to such transferred or deposited  
8 amounts, and reduced by the total net losses  
9 from investments of such sums, and

10           “(B) the reserves held in the Annuity Re-  
11 serves Account established under section  
12 258(b)(3), increased by the total net earnings  
13 from investments of such reserves, and reduced  
14 by the total net losses from investments of such  
15 reserves.

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

18           “(4) BUDGET AUTHORITY; APPROPRIATION.—  
19 This part constitutes budget authority in advance of  
20 appropriations Acts and represents the obligation of  
21 the Board to provide for the payment of amounts  
22 provided under this part. The amounts held in the  
23 Savings Fund are appropriated and shall remain  
24 available without fiscal year limitation.

25           “(b) DEPOSITS INTO FUND.—

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

9           “(2) TRANSFERS BASED ON ESTIMATES.—

10           “(A) IN GENERAL.—The amounts depos-  
11           ited pursuant to paragraph (1) shall be trans-  
12           ferred in at least weekly payments from the  
13           Federal Old-Age and Survivors Insurance Trust  
14           Fund to the Savings Fund.

15           “(B) DETERMINATION OF AMOUNTS.—The  
16           amounts transferred under subparagraph (A)  
17           shall be determined on the basis of estimates,  
18           made by the Commissioner of Social Security  
19           and certified to the Secretary of the Treasury,  
20           of the wages paid to, and self-employment in-  
21           come derived by, participating individuals.  
22           Proper adjustments shall be made in amounts  
23           subsequently transferred to the extent prior es-  
24           timates were in excess of or were less than ac-  
25           tual amounts transferred.

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

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

7                   “(i) the product derived by multi-  
8                   plying—

9                           “(I) the sum of the total wages  
10                           paid to, and self-employment income  
11                           derived by, such individual during  
12                           such calendar year, to the extent such  
13                           total wages and self-employment in-  
14                           come do not exceed the base amount  
15                           for such calendar year; by

16                           “(II) the applicable base percent-  
17                           age for the calendar year; and

18                   “(ii) the product derived by multi-  
19                   plying—

20                           “(I) the sum of the total wages  
21                           paid to, and self-employment income  
22                           derived by, such individual during  
23                           such calendar year, to the extent such  
24                           total wages and self-employment in-  
25                           come exceed the base amount (taking

1 into account the limits imposed by the  
2 contribution and benefit base under  
3 section 230); by

4 “(II) the applicable supplemental  
5 percentage for the calendar year.

6 “(B) BASE AMOUNT.—For purposes of  
7 subparagraph (A)—

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

11 “(ii) ADJUSTMENTS TO BASE  
12 AMOUNT.—The base amount for any cal-  
13 endar year after 2006 is the product de-  
14 rived by multiplying \$10,000 by a frac-  
15 tion—

16 “(I) the numerator of which is  
17 the national average wage index (as  
18 defined in section 209(k)) for the first  
19 of the 2 preceding calendar years; and

20 “(II) the denominator of which is  
21 the national average wage index (as so  
22 defined) for 2004.

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

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

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

5 “(D) APPLICABLE SUPPLEMENTAL PER-  
6 CENTAGE.—For purposes of subparagraph (A),  
7 the applicable supplemental percentage for a  
8 calendar year is—

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

11 “(ii) for calendar years after 2015, 5  
12 percent.

13 “(c) AVAILABILITY.—The sums in the Savings Fund  
14 are appropriated and shall remain available without fiscal  
15 year limitation—

16 “(1) to invest funds in the Tier I Investment  
17 Fund of the Savings Fund and the Tier II Invest-  
18 ment Fund of the Savings Fund under sections 255  
19 and 256, respectively;

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

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

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

1 “(d) LIMITATIONS ON USE OF FUNDS.—

2 “(1) IN GENERAL.—Sums in the Savings Fund  
3 credited to a participating individual’s personal so-  
4 cial security savings account may not be used for, or  
5 diverted to, purposes other than for the exclusive  
6 benefit of the participating individual or the partici-  
7 pating individual’s beneficiaries under this part.

8 “(2) ASSIGNMENTS.—Sums in the Savings  
9 Fund may not be assigned or alienated and are not  
10 subject to execution, levy, attachment, garnishment,  
11 or other legal process.

12 “(e) PAYMENT OF ADMINISTRATIVE EXPENSES.—  
13 Administrative expenses incurred to carry out this part  
14 shall be paid out of net earnings in the Savings Fund in  
15 conjunction with the allocation of investment earnings and  
16 losses under section 254(c).

17 “(f) LIMITATION.—The sums in the Savings Fund  
18 shall not be appropriated for any purpose other than the  
19 purposes specified in this part and may not be used for  
20 any other purpose.

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

22 “(a) PARTICIPATING INDIVIDUAL.—For purposes of  
23 this part, the term ‘participating individual’ means any  
24 individual—

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

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

9           “(2) who is born on or after January 1, 1950,  
10 and

11           “(3) who has not filed an election to renounce  
12 such individual’s status as a participating individual  
13 under subsection (b) or has filed such an election  
14 and has subsequently filed an election to reinstate  
15 such individual’s status as a participating individual  
16 under subsection (c).

17           “(b) RENUNCIATION OF PARTICIPATION.—

18           “(1) IN GENERAL.—An individual—

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

21           “(B) with respect to whom no distribution  
22 has been made from amounts credited to the in-  
23 dividual’s personal social security savings ac-  
24 count for the purchase of a personal social se-  
25 curity savings annuity,

1       may elect, in such form and manner as shall be pre-  
2       scribed in regulations of the Board, to renounce  
3       such individual's status as a 'participating indi-  
4       vidual' for purposes of this part. Upon completion of  
5       the procedures provided for under paragraph (2),  
6       any such individual who has made such an election  
7       shall not be treated as a participating individual  
8       under this part, effective as if such individual had  
9       never been a participating individual. The Board  
10      shall provide for immediate notification of such elec-  
11      tion to the Commissioner of Social Security, the Sec-  
12      retary of the Treasury, and the Executive Director.

13           “(2) PROCEDURE.—The Board shall prescribe  
14      by regulation procedures governing the termination  
15      of an individual's status as 'participating individual'  
16      pursuant to an election under this subsection. Such  
17      procedures shall include—

18                   “(A) prompt closing of the individual's per-  
19                   sonal social security savings account established  
20                   under section 254,

21                   “(B) revocation of any benefit credit cer-  
22                   tificate assigned to the individual's personal so-  
23                   cial security savings account under section 255,  
24                   and

1           “(C) prompt transfer to the Federal Old-  
2           Age and Survivors Insurance Trust Fund as  
3           general receipts of any amount held in the Tier  
4           II Investment Fund of the Savings Fund or  
5           under a Tier III Investment Option pursuant to  
6           section 256 or 257 and credited to such individ-  
7           ual’s personal social security savings account.

8           “(c) REINSTATEMENT OF PARTICIPATION.—

9           “(1) IN GENERAL.—Any individual who has  
10          filed an election under subsection (b) to renounce  
11          such individual’s status as a ‘participating indi-  
12          vidual’ under this part may elect, in such form and  
13          manner as shall be prescribed in regulations of the  
14          Board, to reinstate such status. Such regulations  
15          shall provide for regular, periodic opportunities for  
16          the filing of such an election. The Board shall pro-  
17          vide for immediate notification to the Commissioner  
18          of Social Security, the Secretary of the Treasury,  
19          and the Executive Director of such election.

20          “(2) EFFECTIVENESS OF REINSTATEMENT.—

21          An election under this subsection shall be effective  
22          with respect to wages earned, and self-employment  
23          income derived, on the earliest date on which the  
24          Board determines is practicable to make such elec-  
25          tion effective following the date of the filing of the

1 election. The individual filing the election shall be  
2 treated as becoming a participating individual under  
3 this part on the effective date of the election as if  
4 such individual first met the requirements of sub-  
5 section (a) on such date.

6 “(3) IRREVOCABILITY.—An election under this  
7 subsection shall be irrevocable.

8 **“SEC. 254. PERSONAL SOCIAL SECURITY SAVINGS AC-**  
9 **COUNTS.**

10 “(a) ESTABLISHMENT OF PUBLICLY ADMINISTERED  
11 SYSTEM OF PERSONAL SECURITY SAVINGS ACCOUNTS.—  
12 As soon as practicable after the later of January 1, 2006,  
13 or the date on which an individual becomes a participating  
14 individual under this part, the Executive Director shall es-  
15 tablish a personal social security savings account for such  
16 individual. Such account shall be the means by which  
17 amounts held in the Tier I Investment Fund and the Tier  
18 II Investment Fund of the Savings Fund under sections  
19 255 and 256 and amounts held under Tier III Investment  
20 Options under section 257 are credited to such individual,  
21 under procedures which shall be established by the Board  
22 by regulation. Each account of a participating individual  
23 shall be identified to such participating individual by  
24 means of the participating individual’s social security ac-  
25 count number.

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

3             “(1) the balance in the Tier I Investment Fund  
4             of the Savings Fund credited to such participating  
5             individual prior to transfer of the credited amount to  
6             the Tier II Investment Fund of the Savings Fund;  
7             plus

8             “(2) the excess of—

9                 “(A) all deposits in the Tier II Investment  
10                Fund of the Savings Fund credited to such par-  
11                ticipating individual’s personal social security  
12                savings account, subject to such increases and  
13                reductions as may result from allocations made  
14                to and reductions made in the account pursuant  
15                to subsection (c)(1); over

16               “(B) amounts paid out of the Tier II In-  
17                vestment Fund in connection with amounts  
18                credited to such participating individual’s per-  
19                sonal social security savings account; plus

20             “(3) the excess of—

21                 “(A) the deposits in the Tier III Invest-  
22                ment Options credited to such participating in-  
23                dividual’s personal social security savings ac-  
24                count, subject to such increases and reductions  
25                as may result from amounts credited to, and re-

1           ductions made in, the account pursuant to sub-  
2           section (c)(2); over

3                   “(B) amounts paid out of the Tier III In-  
4           vestment Options of such participating indi-  
5           vidual.

6 The calculation made under paragraph (3) shall be made  
7 separately for each Tier III Investment Option of the par-  
8 ticipating individual. The Board shall also hold for the  
9 participating individual any benefit credit certificate as-  
10 signed to the participating individual’s personal social se-  
11 curity savings account under section 255.

12           “(c) ALLOCATION OF EARNINGS AND LOSSES.—Pur-  
13 suant to regulations which shall be prescribed by the  
14 Board, the Executive Director shall allocate to each per-  
15 sonal social security savings account an amount equal to  
16 the net earnings and net losses from each investment of  
17 sums—

18                   “(1) in the Tier I Investment Fund and the  
19           Tier II Investment Fund which are attributable to  
20           sums credited to such account reduced by an appro-  
21           priate share of the administrative expenses paid out  
22           of the net earnings, as determined by the Executive  
23           Director; and

24                   “(2) in the Tier III Investment Options which  
25           are attributable to sums credited to such account re-

1       duced by the administrative expenses paid out of the  
2       net earnings.

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

4       “(a) ESTABLISHMENT OF TIER I INVESTMENT  
5 FUND.—

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

9               “(2) AMOUNTS IN FUND.—The Tier I Invest-  
10       ment Fund consists of all amounts derived from  
11       payments into the Fund under section 252(b) and  
12       remaining after investment of such amounts under  
13       subsection (b), including additional amounts derived  
14       as income from such investments.

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

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

20                       “(B) to pay the administrative expenses re-  
21       lated to the Fund, and

22                       “(C) to make transfers from the Fund  
23       under subsection (c)(2).

24       “(b) INVESTMENT OF FUND BALANCE.—For pur-  
25       poses of investment of the Tier I Investment Fund, the

1 Board shall contract with appropriate professional asset  
 2 managers, recordkeepers, and custodians selected for in-  
 3 vestment of amounts held in the Fund, so as to provide  
 4 for investment of the balance of the Fund, in a manner  
 5 providing broad diversification in accordance with regula-  
 6 tions of the Board, in—

7           “(1) insurance contracts,

8           “(2) certificates of deposit, or

9           “(3) other instruments or obligations selected  
 10       by such asset managers,

11 which return the amount invested and pay interest, at a  
 12 specified rate or rates, on that amount during a specified  
 13 period of time.

14       “(c) SEPARATE CREDITING TO PERSONAL SOCIAL  
 15 SECURITY SAVINGS ACCOUNTS AND TRANSFERS TO THE  
 16 TIER II INVESTMENT FUND OR TO TIER III INVESTMENT  
 17 OPTIONS.—

18           “(1) CREDITING TO ACCOUNTS.—

19           “(A) IN GENERAL.—Subject to this para-  
 20 graph, the Board shall provide for prompt, sep-  
 21 arate crediting, as soon as practicable, of the  
 22 amounts deposited in the Tier I Investment  
 23 Fund to the personal social security savings ac-  
 24 count of each participating individual with re-  
 25 spect to the redirected social security contribu-

1 tions (as defined in section 252(b)(3)) of such  
2 participating individual. The Board shall in-  
3 clude in such crediting, with respect to each  
4 such individual, any increases or decreases in  
5 such amounts so as to reflect the net returns  
6 and losses from investment of the balance of  
7 the Fund prior to such crediting. For purposes  
8 of determining such increases and decreases for  
9 each calendar year, the amounts deposited into  
10 the Fund in connection with such individual  
11 during such calendar year shall be deemed to  
12 have been deposited on June 30 of such year.

13 “(B) TREATMENT OF MARRIED PARTICI-  
14 PATING INDIVIDUALS.—If the participating in-  
15 dividual is married as of the end of the calendar  
16 year in which the amounts to be credited were  
17 deposited in the Tier I Investment Fund and  
18 the spouse is also a participating individual, the  
19 personal social security savings account of the  
20 participating individual and the personal social  
21 security savings account of his or her spouse  
22 shall each be credited with 50 percent of such  
23 amounts.

24 “(2) TRANSFERS FROM THE TIER I INVEST-  
25 MENT FUND.—In accordance with elections filed

1 with the Board by a participating individual, any  
2 amount credited to the personal social security sav-  
3 ings account of such participating individual under  
4 paragraph (1) shall be promptly transferred to the  
5 Tier II Investment Fund of the Savings Fund for  
6 investment in accordance with section 256 and, to  
7 the extent available under section 257, to Tier III  
8 Investment Options in accordance with section 257.

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

11 “(1) until amounts deposited into the Tier I In-  
12 vestment Fund during any calendar year are cred-  
13 ited to personal social security savings accounts,  
14 such amounts shall be treated as the unallocated  
15 property of all participating individuals with respect  
16 to whom amounts were deposited in the Fund dur-  
17 ing such year, jointly held in trust for such partici-  
18 pating individuals in the Savings Fund, and

19 “(2) amounts deposited into the Fund which  
20 are credited to the personal social security savings  
21 account of a participating individual shall be treated  
22 as property of the participating individual, held in  
23 trust for such participating individual in the Savings  
24 Fund.

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

2 “(a) ESTABLISHMENT OF TIER II INVESTMENT  
3 FUND.—

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

7 “(2) AMOUNTS IN FUND.—The Tier II Invest-  
8 ment Fund consists of all amounts derived from  
9 payments into the Fund under section 255(c)(2) and  
10 remaining after investment of such amounts under  
11 subsection (b), including additional amounts derived  
12 as income from such investments.

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

16 “(A) to be held for investment under sub-  
17 section (b),

18 “(B) to pay the administrative expenses re-  
19 lated to the Fund, and

20 “(C) to make transfers to Tier III Invest-  
21 ment Options under section 257 or to make  
22 payments under section 258.

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

24 “(1) IN GENERAL.—Upon the crediting under  
25 section 252 to the personal social security savings  
26 account of a participating individual of any amount

1 held in the Tier I Investment Fund for any calendar  
2 year, the Board shall transfer from the Tier I In-  
3 vestment Fund into the Tier II Investment Fund  
4 any amount so credited to such participating individ-  
5 ual's account which is not transferred to a Tier III  
6 Investment Option pursuant to an election under  
7 section 257(a).

8 “(2) ONGOING SEPARATE CREDITING.—Subject  
9 to this paragraph, the Board shall provide for ongo-  
10 ing separate crediting to each participating individ-  
11 ual's personal social security savings account of the  
12 amounts deposited in the Tier II Investment Fund  
13 with respect to such participating individual, to-  
14 gether with any increases or decreases therein so as  
15 to reflect the net returns and losses from investment  
16 thereof while held in the Fund.

17 “(c) INVESTMENT ACCOUNTS.—

18 “(1) IN GENERAL.—For purposes of investment  
19 of the Tier II Investment Fund, the Board shall di-  
20 vide the Fund into 6 investment accounts. The  
21 Board shall contract with appropriate investment  
22 managers, recordkeepers, and custodians selected for  
23 investment of amounts held in each investment ac-  
24 count. Such accounts shall consist of—

25 “(A) a Lifecycle Investment Account,

1           “(B) a Government Securities Investment  
2 Account,

3           “(C) a Fixed Income Investment Account,

4           “(D) a Common Stock Index Investment  
5 Account,

6           “(E) a Small Capitalization Stock Index  
7 Investment Account, and

8           “(F) an International Stock Index Invest-  
9 ment Account.

10           “(2) ELECTION OF INVESTMENT OPTIONS.—

11           “(A) DEFAULT INVESTMENT ACCOUNT.—

12 Except as provided in an election in effect  
13 under subparagraph (B), amounts held in the  
14 Tier II Investment Fund shall be credited to  
15 the Lifecycle Investment Account.

16           “(B) ELECTION OF TRANSFERS BETWEEN

17 INVESTMENT ACCOUNTS.—In any case in which

18 a participating individual who has an amount in

19 such individual’s personal social security sav-

20 ings account credited to any of the investment

21 accounts in the Tier II Investment Fund files

22 with the Secretary of the Treasury a written

23 election under this subparagraph, not more fre-

24 quently than annually and in accordance with

25 regulations of the Board, the Secretary of the

1 Treasury shall transfer the full amount so cred-  
2 ited in such investment account from such in-  
3 vestment account to any one of the other invest-  
4 ment accounts in the Tier II Investment Fund  
5 (whichever is designated in such election).

6 “(d) LIFECYCLE INVESTMENT ACCOUNT.—

7 “(1) IN GENERAL.—The investment manager,  
8 recordkeeper, and custodian selected for investment  
9 of amounts held in the Lifecycle Investment Account  
10 shall invest such amounts under regulations which  
11 shall be prescribed by the Board in a mix of equities  
12 and fixed income instruments so as to ensure, to the  
13 maximum extent practicable, that, of the total bal-  
14 ance in the Fund credited to such account and avail-  
15 able for investment (after allowing for administrative  
16 expenses), the percentage invested in fixed income  
17 instruments by individuals in designated cohorts,  
18 ranging in age up to those of at least retirement  
19 age, will increase in a linear progression from 0 per-  
20 cent to 100 percent as the cohort approaches retire-  
21 ment age.

22 “(2) INVESTMENT IN EQUITIES.—In accordance  
23 with regulations which shall be prescribed by the  
24 Board, the Board shall establish standards which  
25 must be met by equities selected for investment in

1 the Lifecycle Investment Account. In conformity  
2 with such standards, the Board shall select, for pur-  
3 poses of such investment, indices which are com-  
4 prised of equities the aggregate market value of  
5 which is, in each case, a reasonably broad represen-  
6 tation of companies whose shares are traded on the  
7 equity markets. Amounts invested in equities under  
8 an investment option shall be held in a portfolio de-  
9 signed to replicate the performance of one or more  
10 of such indices.

11 “(3) INVESTMENT IN FIXED INCOME INSTRU-  
12 MENTS.—In accordance with regulations which shall  
13 be prescribed by the Board, the Board shall estab-  
14 lish standards which must be met by fixed income  
15 instruments selected for investment in the Lifecycle  
16 Investment Account. Such standards shall take into  
17 account the competing considerations of risk and re-  
18 turn. Amounts invested in fixed income instruments  
19 in an investment option shall be held in a portfolio  
20 which shall consist of a diverse range of fixed income  
21 instruments, taking into full account the opposing  
22 considerations of risk and maximization of return.

23 “(e) GOVERNMENT SECURITIES INVESTMENT AC-  
24 COUNT.—

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

5           “(2) ISSUANCE OF SPECIAL OBLIGATIONS.—  
6           The Secretary of the Treasury is authorized to issue  
7           special interest-bearing obligations of the United  
8           States for purchase by the Tier II Investment Fund  
9           for purposes of investment of amounts in the Gov-  
10          ernment Securities Investment Account. Such obliga-  
11          tions shall have maturities fixed with due regard to  
12          the needs of the Fund as determined by the Board,  
13          and shall bear interest at a rate equal to the average  
14          market yield (computed by the Secretary of the  
15          treasury on the basis of market quotations as of the  
16          end of the calendar month next preceding the date  
17          of issue of such obligations) on all marketable inter-  
18          est-bearing obligations of the United States then  
19          forming a part of the public debt which are not due  
20          or callable earlier than 4 years after the end of such  
21          calendar month. Any average market yield computed  
22          under this paragraph which is not a multiple of one-  
23          eighth of 1 percent shall be rounded to the nearest  
24          multiple of one-eighth of 1 percent.

1       “(f) FIXED INCOME INVESTMENT ACCOUNT.—  
2       Amounts in the Fixed Income Investment Account shall  
3       be invested in instruments or obligations which return the  
4       amount invested and pay interest, at a specified rate or  
5       rates, on that amount during a specified period of time,  
6       consisting of instruments or obligations in one or more  
7       of the following categories:

8               “(1) insurance contracts;

9               “(2) certificates of deposit; or

10              “(3) other instruments or obligations selected  
11       by qualified professional asset managers.

12       “(g) COMMON STOCK INDEX INVESTMENT AC-  
13       COUNT.—

14              “(1) PORTFOLIO DESIGN.—Amounts held in the  
15       Common Stock Investment Account shall be invested  
16       in a portfolio of common stock designed to replicate  
17       the performance of the index selected under para-  
18       graph (2). The portfolio shall be designed such that,  
19       to the extent practicable, the percentage of the bal-  
20       ance in the Common Stock Index Investment Ac-  
21       count that is invested in each stock is the same as  
22       the percentage determined by dividing the aggregate  
23       market value of all shares of that stock by the ag-  
24       gregate market value of all shares of all stocks in-  
25       cluded in such index.

1           “(2) SELECTION OF INDEX.—The Board shall  
2           select, for purposes of investment of amounts held in  
3           the Common Stock Investment Account, an index  
4           which is a commonly recognized index comprised of  
5           common stock the aggregate market value of which  
6           is a reasonably complete representation of the  
7           United States equity markets.

8           “(h) SMALL CAPITALIZATION STOCK INDEX INVEST-  
9           MENT ACCOUNT.—

10           “(1) PORTFOLIO DESIGN.—Amounts held in the  
11           Small Capitalization Stock Index Investment Ac-  
12           count shall be invested in a portfolio of common  
13           stock designed to replicate the performance of the  
14           index selected under paragraph (2). The portfolio  
15           shall be designed such that, to the extent prac-  
16           ticable, the percentage of the balance in the Small  
17           Capitalization Stock Index Investment Account that  
18           is invested in each stock is the same as the percent-  
19           age determined by dividing the aggregate market  
20           value of all shares of that stock by the aggregate  
21           market value of all shares of all stocks included in  
22           such index.

23           “(2) SELECTION OF INDEX.—The Board shall  
24           select, for purposes of investment of amounts held in  
25           the Small Capitalization Stock Index Investment Ac-

1 count, an index which is a commonly recognized  
2 index comprised of common stock the aggregate  
3 market value of which represents the United States  
4 equity markets excluding the common stocks in-  
5 cluded in the Common Stock Index Investment Ac-  
6 count.

7 “(i) INTERNATIONAL STOCK INDEX INVESTMENT  
8 ACCOUNT.—

9 “(1) PORTFOLIO DESIGN.—Amounts held in the  
10 International Stock Index Investment Account shall  
11 be invested in a portfolio of stock designed to rep-  
12 licate the performance of the index selected under  
13 paragraph (2). The portfolio shall be designed such  
14 that, to the extent practicable, the percentage of the  
15 balance in the International Stock Index Investment  
16 Account that is invested in each stock is the same  
17 as the percentage determined by dividing the aggre-  
18 gate market value of all shares of that stock by the  
19 aggregate market value of all shares of all stocks in-  
20 cluded in such index.

21 “(2) SELECTION OF INDEX.—The Board shall  
22 select, for purposes of investment of amounts held in  
23 the International Stock Index Investment Account,  
24 an index which is a commonly recognized index com-  
25 prised of common stock the aggregate market value

1 of which is a reasonably complete representation of  
2 the international equity markets excluding the  
3 United States equity markets.

4 “(j) ADDITIONAL INVESTMENT OPTIONS.—The  
5 Board may from time to time, as determined by regulation  
6 as appropriate to further the purposes of this section,  
7 shall—

8 “(1) establish investment accounts in the Tier  
9 II Investment Fund meeting the requirements of  
10 this section in addition to those established by this  
11 section, and

12 “(2) terminate investment accounts in the Tier  
13 II Investment Fund established pursuant to para-  
14 graph (1).

15 “(k) DISCLOSURE OF ADMINISTRATIVE COSTS.—The  
16 Board shall provide to each participating individual an an-  
17 nual disclosure of the rate of administrative costs charge-  
18 able with respect to investment in each investment account  
19 in the Tier II Investment Fund. Such disclosure shall be  
20 written in a manner calculated to be understood by the  
21 average participating individual.

22 “(l) TREATMENT OF AMOUNTS HELD IN TIER II IN-  
23 VESTMENT FUND.—Subject to this part, amounts depos-  
24 ited into, and held and accounted for in, the Tier II In-  
25 vestment Fund with respect to any participating individual

1 shall continue to be treated as property of such partici-  
2 pating individual, held in trust for such participating indi-  
3 vidual in the Fund.

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

5       “(a) ELECTION OF TIER III INVESTMENT OP-  
6 TIONS.—

7               “(1) IN GENERAL.—A participating individual  
8 may elect to direct transfers from amounts in the  
9 Savings Fund credited to the personal social security  
10 savings account of such individual into 1 or more  
11 Tier III Investment Options in accordance with  
12 paragraph (2).

13               “(2) COMMENCEMENT OF TIER III INVESTMENT  
14 OPTIONS UPON ATTAINMENT OF ELECTION THRESH-  
15 OLD.—In any case in which, as of the end of any  
16 calendar year, the total balance in the Savings Fund  
17 credited to a participating individual’s personal so-  
18 cial security savings account exceeds for the first  
19 time the election threshold, the Board shall, by regu-  
20 lation, provide for an opportunity for such partici-  
21 pating individual to make, at any time thereafter,  
22 such individual’s first election of one or more of the  
23 Tier III Investment Options for investment of an  
24 amount in the Savings Fund credited to such ac-  
25 count. Such election may be in lieu of or in addition

1 to investment in the options available with respect to  
2 the Tier II Investment Fund of the Savings Fund.

3 “(3) ALLOCATION OF FUNDS.—In the case of  
4 an election under paragraph (1), funds credited to  
5 the personal social security savings account of the  
6 participating individual and elected for transfer to  
7 one or more Tier III Investment Options shall be  
8 transferred to the Tier III Investment Options so  
9 elected for such calendar year, in percentages speci-  
10 fied in the election by the participating individual for  
11 each applicable portfolio.

12 “(4) ELECTION THRESHOLD.—

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

17 “(B) ADJUSTMENTS.—The Board shall ad-  
18 just annually (effective for annual reporting  
19 months occurring after December 2006) the  
20 dollar amount set forth in subparagraph (A)  
21 under procedures providing for adjustments in  
22 the same manner and to the same extent as ad-  
23 justments are provided for under the proce-  
24 dures used to adjust benefit amounts under sec-  
25 tion 215(i)(2)(A), except that any amount so

1 adjusted that is not a multiple of \$1.00 shall be  
2 rounded to the nearest multiple of \$1.00.

3 “(5) SUBSEQUENT INVESTMENT OF AMOUNTS  
4 HELD IN TIER III INVESTMENT OPTIONS.—Any  
5 amounts held in one or more Tier III Investment  
6 Options may be—

7 “(A) transferred at any time to one or  
8 more other Tier III Investment Options, subject  
9 to applicable regulations of the Board and the  
10 terms governing the affected Tier III Invest-  
11 ment Options, and

12 “(B) transferred, not more frequently than  
13 annually, to the Tier II Investment Fund, for  
14 deposit in the applicable investment account  
15 then selected by the participating individual  
16 under section 256.

17 “(b) CERTIFICATION OF ELIGIBLE ENTITIES.—

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

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

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

4           “(A) SEPARATE ACCOUNTING.—Each eligi-  
5 ble entity shall, with respect to each Tier III  
6 Investment Option offered by such eligible enti-  
7 ty to participating individuals—

8           “(i) establish separate accounts for  
9 the contributions of each participating in-  
10 dividual, and any earnings properly allo-  
11 cable to the contributions, and

12           “(ii) maintain separate recordkeeping  
13 with respect to each account.

14           “(B) TREATMENT OF AMOUNTS HELD IN  
15 FUND.—Amounts deposited into, and held and  
16 accounted for in, a Tier III Investment Option  
17 with respect to any participating individual  
18 shall be treated as property of such partici-  
19 pating individual, held in trust for such partici-  
20 pating individual.

21           “(C) TRUST REQUIREMENTS.—Amounts  
22 held and accounted for with respect to a partici-  
23 pating individual shall be held in a trust created  
24 or organized in the United States for the exclu-

1           sive benefit of such individual or his bene-  
2           ficiaries.

3           “(D) EXEMPTION FROM THIRD PARTY  
4           CLAIMS.—Each Tier III Investment Option  
5           shall be exempt from any and all third party  
6           claims against the eligible entity.

7           “(E) DISCLOSURE OF ADMINISTRATIVE  
8           COSTS.—Each eligible entity offering a Tier III  
9           Investment Option under this section shall pro-  
10          vide to each participating individual an annual  
11          disclosure of the rate of administrative costs  
12          chargeable with respect to investment in such  
13          Option. Such disclosure shall be written in a  
14          manner calculated to be understood by the av-  
15          erage participating individual. The Board shall  
16          provide for coordination of disclosures with re-  
17          spect to Tier III Investment Options under this  
18          subparagraph so as to assist participating indi-  
19          viduals in comparing alternative Options based  
20          on administrative costs.

21          “(F) REPORTING TO THE EXECUTIVE DI-  
22          RECTOR AND THE BOARD.—Each eligible entity  
23          shall provide reports to the Executive Director  
24          and the Board at such time, in such manner,

1           and containing such information as the Board  
2           may require.

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

9           “(c) APPROVAL OF TIER III INVESTMENT OP-  
10          TIONS.—

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

15           “(2) APPLICATION.—With respect to each Tier  
16           III Investment Option that an eligible entity cer-  
17           tified under subsection (b)(1) seeks to offer, such  
18           entity shall submit an application to the Board at  
19           such time, in such manner, and containing such in-  
20           formation as the Board may require.

21           “(3) QUALIFICATIONS FOR APPROVAL.—The  
22           Board may not approve an application submitted  
23           under paragraph (2) in connection with a Tier III  
24           Investment Option unless the following requirements  
25           are met:

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

5           “(B) OPTION MUST MEET QUALITY FAC-  
6           TORS.—

7           “(i) IN GENERAL.—The Tier III In-  
8           vestment Option meets qualifications which  
9           shall be prescribed by the Board relating  
10          to the quality factors described in clause  
11          (ii).

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

14               “(I) the safety and soundness of  
15               the Tier III Investment Option’s pro-  
16               posed investment policy;

17               “(II) the experience and record  
18               of performance of the proposed invest-  
19               ment option, if any;

20               “(III) the experience and record  
21               of performance of the entity issuing or  
22               offering such option; and

23               “(IV) such other factors as the  
24               Board may determine appropriate.

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

5           “(1) act in the best interests of the partici-  
 6 pating individuals;

7           “(2) base its determination solely on consider-  
 8 ations of balancing safety and soundness of the Tier  
 9 III Investment Option with the maximization of re-  
 10 turns of such option; and

11           “(3) not base any determination related to the  
 12 entity or option on political or other extraneous con-  
 13 siderations.

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

16           “(1) IN GENERAL.—A membership or labor or-  
 17 ganization (as defined by the Board) may sponsor  
 18 Tier III Investment Options under contracts with el-  
 19 igible entities certified under subsection (b) who  
 20 shall administer the investment option if such invest-  
 21 ment option is approved by the Board under sub-  
 22 section (c).

23           “(2) LIMITATION TO MEMBERSHIP.—A mem-  
 24 bership or labor organization (as so defined) may  
 25 limit to the members of such organization participa-

1       tion in a Tier III Investment Option sponsored by  
2       such organization.

3       “(f) DISTRIBUTIONS IN CASE OF DEATH.—Upon the  
4 death of a participating individual, the amount of any as-  
5 sets held under a Tier III Investment Option credited to  
6 the personal social security savings account of such indi-  
7 vidual shall be distributed in accordance with section  
8 258(e).

9       **“SEC. 258. PERSONAL SOCIAL SECURITY SAVINGS ANNUITY**  
10                                   **AND OTHER DISTRIBUTIONS.**

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

16               “(1) the date the participating individual at-  
17 tains retirement age (as defined in section 216(l)(1))  
18 or, if elected by the individual, early retirement age  
19 (as defined in section 216(l)(2)); or

20               “(2) the date on which the amount credited to  
21 the participating individual’s personal social security  
22 savings account is sufficient to purchase a personal  
23 social security savings annuity with a monthly ben-  
24 efit that is at least equal to the minimum annuity

1 payment amount (as defined in subsection  
2 (b)(4)(C)(iii)).

3 “(b) PERSONAL SOCIAL SECURITY SAVINGS ANNU-  
4 ITIES.—

5 “(1) NOTICE OF AVAILABLE ANNUITIES.—Not  
6 later than the date determined under subsection (a),  
7 the Board shall notify each participating individual  
8 of—

9 “(A) the most recent listing of personal so-  
10 cial security savings annuities offered by the  
11 Annuity Issuance Authority under paragraph  
12 (2); and

13 “(B) the entitlement of the participating  
14 individual to purchase such an annuity.

15 “(2) ANNUITY ISSUANCE AUTHORITY.—There is  
16 established in the office of the Board an agency  
17 which shall be known as the ‘Annuity Issuance Au-  
18 thority’. The Authority shall provide, in accordance  
19 with regulations of the Board, for the issuance of  
20 personal social security savings annuities for pur-  
21 chase from the Authority under this section and to  
22 otherwise administer the issuance of such annuities  
23 in accordance with such regulations.

24 “(3) ANNUITY RESERVES ACCOUNT.—There is  
25 established in the Savings Fund an Annuity Re-

1 serves Account. The Account shall consist of all  
2 amounts received by the Authority from the pur-  
3 chase of personal social security savings annuities  
4 under this section (plus such amounts as may be  
5 transferred to the Account under paragraph (5)(B)),  
6 increased by the total net earnings from investments  
7 of such reserves under subparagraph (A) of para-  
8 graph (5) and reduced by the total net losses from  
9 investments of such reserves under such subpara-  
10 graph.

11 “(4) PURCHASE OF ANNUITIES.—

12 “(A) SELECTION OF ANNUITY.—On a date  
13 elected by the participating individual, but no  
14 earlier than the date determined under sub-  
15 section (a), a participating individual may pur-  
16 chase a personal social security savings annuity  
17 selected from among the annuities offered by  
18 the Authority under paragraph (2).

19 “(B) TRANSFER OF ASSETS.—Upon the  
20 selection of an annuity by a participating indi-  
21 vidual under subparagraph (A), the Board shall  
22 provide for the transfer of assets, credited to  
23 the personal social security savings account of  
24 the participating individual and held in the Tier  
25 II Investment Fund or under 1 or more Tier

1           III Investment Options (or any combination  
2 thereof), in a total amount sufficient to pur-  
3 chase the annuity selected by the participating  
4 individual from annuities offered by the Author-  
5 ity.

6           “(C)   MINIMUM   ANNUITY   PAYMENT  
7 AMOUNT.—

8           “(i) IN GENERAL.—Subject to sub-  
9 paragraph (D), if, at the time a personal  
10 social security savings annuity is pur-  
11 chased under subparagraph (A), the assets  
12 credited to the personal social security sav-  
13 ings account of the participating individual  
14 are sufficient to purchase a personal social  
15 security savings annuity offered by the Au-  
16 thority under paragraph (2) with a month-  
17 ly annuity payment that is at least equal  
18 to the minimum annuity payment amount,  
19 the amount of the monthly annuity pay-  
20 ment provided by such annuity may not be  
21 less than the minimum annuity payment  
22 amount.

23           “(ii) CONSTRUCTION.—Nothing in  
24 this subparagraph shall be construed to  
25 prohibit a participating individual from

1 using personal social security savings ac-  
2 count assets to purchase a personal social  
3 security savings annuity offered by the Au-  
4 thority under paragraph (2) which provides  
5 for a monthly payment in excess of the  
6 minimum amount required under clause  
7 (i).

8 “(iii) MINIMUM ANNUITY PAYMENT  
9 AMOUNT DEFINED.—For purposes of this  
10 part, the term ‘minimum annuity payment  
11 amount’ means, as of any date, an amount  
12 equal to the monthly equivalent of 150 per-  
13 cent of the poverty line for an individual  
14 (as in effect on such date), determined  
15 under the poverty guidelines of the Depart-  
16 ment of Health and Human Services  
17 issued under sections 652 and 673(2) of  
18 the Omnibus Budget Reconciliation Act of  
19 1981.

20 “(iv) DEEMED TOTAL PART A MONTH-  
21 LY BENEFIT AMOUNT.—For purposes of  
22 clause (iii), the term ‘deemed total part A  
23 monthly benefit amount’ means, with re-  
24 spect to a participating individual, the  
25 total amount which would be payable as

1 monthly insurance benefits under section  
2 202 for the month in which the partici-  
3 pating individual attains or would attain  
4 early retirement age (as defined in section  
5 216(l)(2)), based on the participating indi-  
6 vidual's wages and self-employment in-  
7 come, if the participating individual ap-  
8 plied for old-age insurance benefits under  
9 section 202(a) during such month and all  
10 other individuals who would therefore be  
11 eligible for benefits under section 202 for  
12 such month based on such wages and self-  
13 employment income applied for such bene-  
14 fits during such month.

15 “(v) ASSUMPTIONS.—

16 “(I) EARNINGS AND LON-  
17 GEVITY.—In the case of a partici-  
18 pating individual with respect to  
19 whom determinations under this sub-  
20 paragraph are made prior to the  
21 month described in clause (iv), the  
22 participating individual's average in-  
23 dexed monthly earnings (within the  
24 meaning of section 215(b)) for such  
25 month shall be projected, under regu-

1           lations which shall be prescribed by  
2           the Board, on the basis of reasonable  
3           actuarial assumptions, and the Board  
4           shall assume the survival through the  
5           end of such month of all other individ-  
6           uals described in clause (iv).

7                   “(II) PROJECTED INVESTMENT  
8           RETURNS.—For purposes of making  
9           actuarial determinations relating to  
10          the amounts of annuities offered by  
11          the Authority under this section and  
12          the amounts necessary for the pur-  
13          chase of such annuities, the Authority  
14          shall project returns from the invest-  
15          ment, in accordance with paragraph  
16          (5)(A), of the reserves held in the An-  
17          nuities Reserves Account. The projec-  
18          tion by the Authority of such returns  
19          shall be made under assumptions of  
20          long-term average returns of equities  
21          and fixed income instruments which  
22          shall be issued annually by the Board  
23          of Trustees of the Federal Old-Age  
24          and Survivors Insurance Trust Fund  
25          and the Federal Disability Insurance

1 Trust Fund, based on analysis of his-  
2 torical market returns.

3 “(D) PURCHASE OF ANNUITIES IN THE  
4 EVENT OF INSUFFICIENT ASSETS.—If a partici-  
5 pating individual desires, or is required under  
6 subsection (f) , to purchase a personal social se-  
7 curity savings annuity under subsection (b) on  
8 or after the date determined under subsection  
9 (a)(1) and the assets of the personal social se-  
10 curity savings account of such individual are in-  
11 sufficient to purchase a personal social security  
12 savings annuity that provides for a monthly  
13 payment that is at least equal to the minimum  
14 annuity payment amount (as defined in para-  
15 graph (4)(C)(iii)), the participating individual  
16 shall purchase a personal social security savings  
17 annuity with a monthly payment equal to the  
18 maximum amount that the participating indi-  
19 vidual’s personal social security savings account  
20 can fund, as determined in accordance with reg-  
21 ulations which shall be prescribed by the Au-  
22 thority, and that otherwise meets the require-  
23 ments of this subsection (including the cost-of-  
24 living protection requirement of subsection  
25 (c)(1)(C)), and the Authority shall provide for

1 appropriate certification to the Secretary of the  
2 Treasury with respect to the participating indi-  
3 vidual's eligibility for guarantee payments  
4 under section 259.

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

7 “(A) INVESTMENT OF RESERVES.—For  
8 purposes of investment of reserves held in the  
9 Annuity Reserves Account, the Authority shall  
10 contract with appropriate investment managers,  
11 recordkeepers, and custodians selected by the  
12 Authority for investment of such reserves. Such  
13 reserves shall be invested under regulations  
14 which shall be prescribed by the Authority so as  
15 to ensure, to the maximum extent practicable,  
16 that, of the total balance of the reserves (after  
17 payment of administrative expenses to such  
18 managers, recordkeepers, and custodians)—

19 “(i) 65 percent is invested in equities  
20 in the same manner and under the same  
21 standards as are provided in section  
22 256(c)(4), and

23 “(ii) 35 percent is invested in fixed in-  
24 come instruments in the same manner and

1           under the same standards as are provided  
2           in section 256(c)(5).

3           “(B) PROVISION FOR FULL PAYMENT OF  
4           ANNUITIES.—Payment of personal social secu-  
5           rity savings annuities in accordance with the  
6           terms of such annuities shall be made, irrespec-  
7           tive of the sufficiency of reserves in the Annuity  
8           Reserves Fund attributable to funds obtained  
9           from the purchase of such annuities. In the  
10          event of any impending insufficiency in the An-  
11          nuity Reserves Account for the next fiscal year,  
12          the Authority shall certify to the Secretary of  
13          the Treasury the amount of such insufficiency,  
14          and the Secretary of the Treasury shall transfer  
15          from the Federal Old-Age and Survivors Insur-  
16          ance Trust Fund to the Annuity Reserves Ac-  
17          count the amount of the insufficiency, as so cer-  
18          tified, in such installments, made prior to or  
19          during such fiscal year, as are necessary to  
20          eliminate in advance such insufficiency.

21          “(c) PERSONAL SOCIAL SECURITY SAVINGS ANNU-  
22          ITY.—

23                 “(1) IN GENERAL.—For purposes of this part,  
24          the term ‘personal social security savings annuity’

1 means an annuity that meets the following require-  
2 ments:

3 “(A) The annuity starting date (as defined  
4 in section 72(c)(4) of the Internal Revenue  
5 Code of 1986) commences on the first day of  
6 the month beginning after the date of the pur-  
7 chase of the annuity.

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

9 “(i) for a monthly payment to the  
10 participating individual during the life of  
11 the participating individual equal to at  
12 least the minimum annuity payment  
13 amount (as defined in subsection  
14 (b)(4)(C)(iii)), or

15 “(ii) in the case of an annuity pur-  
16 chased under subparagraph (D) of sub-  
17 section (b)(4), the maximum monthly pay-  
18 ment determined under regulations pre-  
19 scribed under such subparagraph.

20 “(C) The terms of the annuity include pro-  
21 cedures providing for adjustments in the  
22 amount of the monthly payments in the same  
23 manner and to the same extent as adjustments  
24 are provided for under the procedures used to  
25 adjust benefit amounts under section

1           215(i)(2)(A). Nothing in this subparagraph  
2           shall be construed to preclude the terms gov-  
3           erning such an annuity from providing for ad-  
4           justments in the amount of monthly payments  
5           resulting in a payment for any month greater  
6           than the payment for that month that would re-  
7           sult from adjustments required under the pre-  
8           ceding sentence.(b)(4)(D)

9           “(D) The terms of the annuity include  
10          such other terms and conditions as the Board  
11          requires for the protection of the annuitant.

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

16          “(d) RIGHT TO USE EXCESS PERSONAL SOCIAL SE-  
17          CURITY SAVINGS ACCOUNT ASSETS.—To the extent assets  
18          credited to a participating individual’s personal social se-  
19          curity savings account remain after the purchase of an an-  
20          nuity under subsection (b), the remaining assets shall be  
21          payable to the participating individual at such time, in  
22          such manner, and in such amounts as the participating  
23          individual may specify, subject to subsection (f).

24          “(e) DISTRIBUTIONS IN CASE OF DEATH.—If the  
25          participating individual dies before all amounts which are

1 held in the Tier I Investment Fund or the Tier II Invest-  
2 ment Fund of the Savings Fund or held under a Tier III  
3 Investment Option and which are credited to the personal  
4 social security savings account of the individual are other-  
5 wise distributed in accordance with this section, such  
6 amounts shall be distributed, under regulations which  
7 shall be prescribed by the Board—

8           “(1) in any case in which one or more bene-  
9           ficiaries have been designated in advance, to such  
10          beneficiaries in accordance with such designation as  
11          provided in such regulations, and

12           “(2) in the case of any amount not distributed  
13          as described in paragraph (1), to such individual’s  
14          estate.

15          “(f) DATE OF FINAL DISTRIBUTION.—All amounts  
16          credited to the personal social security savings account of  
17          an individual shall be distributed, by means of the pur-  
18          chase of annuities or otherwise in a manner consistent  
19          with the requirements of this section, not later than 5  
20          years after the date the individual attains retirement age  
21          (as defined in section 216(l)). The Board shall provide by  
22          regulation for means of distribution necessary to ensure  
23          compliance with the requirements of this subsection.

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

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

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

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

23               “(2) the payment for such month of the per-  
24 sonal social security savings annuity purchased by  
25 the participating individual.

1       “(c) PROTECTION OF PART A NORMAL RETIREMENT  
2 BENEFIT LEVELS.—

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

7           “(A) such individual’s assumed total nor-  
8 mal retirement part A benefit for such month,  
9 exceeds

10           “(B) the monthly payment payable for  
11 such month under such individual’s personal so-  
12 cial security savings annuity,

13 the Secretary of the Treasury shall pay to such indi-  
14 vidual for such month, from amounts in the Federal  
15 Old-Age and Survivors Insurance Trust Fund, an  
16 additional amount (if any) equal to the excess of the  
17 amount described in subparagraph (A) over the  
18 amount described in subparagraph (B).

19           “(2) DEFINITION.—For purposes of this sub-  
20 section, the term ‘assumed total normal retirement  
21 part A benefit’ means, in connection with a partici-  
22 pating individual, the total amount of monthly insur-  
23 ance benefits under section 202 based on such indi-  
24 vidual’s wages and self-employment income (ad-

1       justed by taking into account adjustments under sec-  
2       tion 215(i)) that would have been payable if—

3               “(A) section 202(z) did not apply, and

4               “(B) such individual applied for old-age in-  
5       surance benefits under section 202(a) during  
6       the month in which such individual attains re-  
7       tirement age (as defined in section 216(l)(1)).

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

9               “(a) ESTABLISHMENT.—There is established in the  
10      executive branch of the Government a Personal Social Se-  
11      curity Savings Board.

12              “(b) COMPOSITION.—The Board shall be composed  
13      of—

14              “(1) 3 members appointed by the President, of  
15      whom 1 shall be designated by the President as  
16      Chairman; and

17              “(2) 2 members appointed by the President, of  
18      whom—

19              “(A) 1 shall be appointed by the President  
20      after taking into consideration the recommenda-  
21      tion made by the Speaker of the House of Rep-  
22      resentatives in consultation with the Minority  
23      Leader of the House of Representatives; and

24              “(B) 1 shall be appointed by the President  
25      after taking into consideration the recommenda-

1           tion made by the Majority Leader of the Senate  
2           in consultation with the Minority Leader of the  
3           Senate.

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

7           “(d) MEMBERSHIP REQUIREMENTS.—Members of  
8 the Board shall have substantial experience, training, and  
9 expertise in the management of financial investments and  
10 pension benefit plans.

11          “(e) LENGTH OF APPOINTMENTS.—

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

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

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

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

22          “(2) VACANCIES.—

23           “(A) IN GENERAL.—A vacancy on the  
24 Board shall be filled in the manner in which the  
25 original appointment was made and shall be

1 subject to any conditions that applied with re-  
2 spect to the original appointment.

3 “(B) COMPLETION OF TERM.—An indi-  
4 vidual chosen to fill a vacancy shall be ap-  
5 pointed for the unexpired term of the member  
6 replaced.

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

10 “(f) DUTIES.—The Board shall—

11 “(1) administer the program established under  
12 this part;

13 “(2) establish policies for the investment and  
14 management of the Savings Fund, including the  
15 Tier I Investment Fund and the Tier II Investment  
16 Fund, and amounts held under Tier III Investment  
17 Options, including policies applicable to the asset  
18 managers, recordkeepers, and custodians with re-  
19 sponsibility for managing the investment of amounts  
20 credited to personal social security investment ac-  
21 counts, and for the management and operation of  
22 personal social security savings annuities, which  
23 shall provide for—

1           “(A) prudent investments suitable for ac-  
2           cumulating funds for payment of retirement in-  
3           come;

4           “(B) sound management practices; and

5           “(C) low administrative costs;

6           “(3) review the performance of investments  
7           made for the Tier I Investment Fund and the Tier  
8           II Investment Fund;

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

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

13          “(6) review and approve the budget of the  
14          Board; and

15          “(7) comply with the fiduciary requirements of  
16          part 4 of subtitle B of title I of the Employee Re-  
17          tirement Income Security Act of 1974 (relating to fi-  
18          duciary responsibility) in connection with any exer-  
19          cise of discretion in connection with the assets of the  
20          Savings Fund.

21          “(g) ADMINISTRATIVE PROVISIONS.—

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

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

24                         “(B) except as provided in paragraph (4),  
25                         direct the Executive Director to take such ac-

1           tion as the Board considers appropriate to  
2           carry out the provisions of this part and the  
3           policies of the Board in accordance with delega-  
4           tions under this part;

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

8           “(D) provide to the Executive Director  
9           such resources as are necessary to carry out the  
10          duties of the Executive Director; and

11          “(E) take such other actions as may be  
12          necessary to carry out the functions of the  
13          Board.

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

15                 “(A) not less than once during each  
16                 month; and

17                 “(B) at additional times at the call of the  
18                 Chairman.

19          “(3) EXERCISE OF POWERS.—

20                 “(A) IN GENERAL.—Except as provided in  
21                 paragraph (1)(C), the Board shall perform the  
22                 functions and exercise the powers of the Board  
23                 on a majority vote of a quorum of the Board.  
24                 Three members of the Board shall constitute a  
25                 quorum for the transaction of business.

1           “(B) VACANCIES.—A vacancy on the  
2           Board shall not impair the authority of a  
3           quorum of the Board to perform the functions  
4           and exercise the powers of the Board.

5           “(4) LIMITATIONS ON INVESTMENTS.—The  
6           Board may not direct any person to invest or to  
7           cause to be invested any sums in the Tier II Invest-  
8           ment Fund or any personal social security invest-  
9           ment account in a specific asset or to dispose of or  
10          cause to be disposed of any specific asset of such  
11          Fund or any such account.

12          “(h) COMPENSATION.—

13                 “(1) IN GENERAL.—Each member of the Board  
14                 who is not an officer or employee of the Federal  
15                 Government shall be compensated at the daily rate  
16                 of basic pay for level IV of the Executive Schedule  
17                 for each day during which such member is engaged  
18                 in performing a function of the Board.

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

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

5           “(i) DISCHARGE OF RESPONSIBILITIES.—The mem-  
6           bers of the Board shall discharge their responsibilities  
7           solely in the interest of the participating individuals and  
8           their beneficiaries under this part.

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

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

19          “(l) SUBMISSION OF LEGISLATIVE RECOMMENDA-  
20          TIONS.—The Board may submit to the President, and, at  
21          the same time, shall submit to each House of Congress,  
22          any legislative recommendations of the Board relating to  
23          any of its functions under this part or any other provision  
24          of law.

1 **“SEC. 261. EXECUTIVE DIRECTOR.**

2       “(a) APPOINTMENT OF EXECUTIVE DIRECTOR.—The  
3 Board shall appoint, without regard to the provisions of  
4 law governing appointments in the competitive service, an  
5 Executive Director by action agreed to by a majority of  
6 the members of the Board.

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

9           “(1) carry out the policies established by the  
10 Board;

11           “(2) invest and manage the Tier I Investment  
12 Fund and the Tier II Investment Fund in accord-  
13 ance with the investment policies and other policies  
14 established by the Board;

15           “(3) administer the provisions of this part re-  
16 lating to the Tier I Investment Fund and the Tier  
17 II Investment Fund; and

18           “(4) prescribe such regulations (other than reg-  
19 ulations relating to fiduciary responsibilities) as may  
20 be necessary for the administration of this part re-  
21 lating to the Tier I Investment Fund and the Tier  
22 II Investment Fund.

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

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

5           “(2) subject to approval by the Board, procure  
6           the services of experts and consultants under section  
7           3109 of title 5, United States Code;

8           “(3) secure directly from an Executive agency,  
9           the United States Postal Service, or the Postal Rate  
10          Commission any information necessary to carry out  
11          the provisions of this part and the policies of the  
12          Board relating to the Tier I Investment Fund and  
13          the Tier II Investment Fund;

14          “(4) make such payments out of sums in the  
15          Tier I Investment Fund and the Tier II Investment  
16          Fund as the Executive Director determines, in ac-  
17          cordance with regulations of the Board, are nec-  
18          essary to carry out the provisions of this part and  
19          the policies of the Board;

20          “(5) pay the compensation, per diem, and travel  
21          expenses of individuals appointed under paragraphs  
22          (1), (2), and (6) from the Tier I Investment Fund  
23          or the Tier II Investment Fund, in accordance with  
24          regulations of the Board;

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

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

15           “(8) take such other actions as are appropriate  
16 to carry out the functions of the Executive Direc-  
17 tor.”.

18       (b) EFFECTIVE DATE.—The amendments made by  
19 this section shall apply with respect to wages paid after  
20 December 31, 2005, for pay periods ending after such  
21 date and self-employment income for taxable years begin-  
22 ning after such date.

1 **SEC. 102. MONTHLY INSURANCE BENEFITS FOR PARTICI-**  
2 **PATING INDIVIDUALS.**

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

6 “Benefits for Participants Under Part B

7 “(z)(1) Notwithstanding the preceding provisions of  
8 this section—

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

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

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

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

4 (a) **RECAPTURE OF CORPORATE TAX ON ACCOUNT**  
5 **YIELDS.—**

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

9 “Recapture of Corporate Tax on Yields From Personal  
10 Social Security Savings Account Investments

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

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

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

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

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

16                   (C) Of the amount described in subpara-  
17                   graph (B), 95 percent will be subject to the  
18                   Federal corporate tax.

19                   (D) The amount described in subpara-  
20                   graph (C) is subject to the statutory tax rate of  
21                   35 percent (resulting in an effective corporate  
22                   tax rate of 23.9 percent on the earnings of all  
23                   such total assets).

24           (b) RECAPTURE OF GOVERNMENT SAVINGS OVER  
25           BASELINE.—

1           (1) IN GENERAL.—Section 201 of the Social  
2           Security Act (as amended by subsection (a)) is  
3           amended further by adding at the end the following  
4           new subsection:

5           “Recapture of Government Savings Over Baseline

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

14                 “(A) for any fiscal year in the period beginning  
15                 with fiscal year 2006 and ending with fiscal year  
16                 2013, the excess of—

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

21                         “(ii) the product of—

22                                 “(I) 20 percent of the gross domestic  
23                                 product (as so determined) for the fiscal  
24                                 year for which the determination is made;  
25                                 and

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

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

8                   “(i) the amount determined under sub-  
9                   paragraph (A) for fiscal year 2013; increased  
10                  by

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

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

23                  “(A) the spending reductions amount for each  
24                  fiscal year during such period shall be the excess  
25                  of—

1           “(i) 20 percent of the gross domestic prod-  
2           uct (as projected by the Department of Com-  
3           merce) for the fiscal year for which the deter-  
4           mination is made; over

5           “(ii) the product of—

6           “(I) 20 percent of the gross domestic  
7           product (as so projected) for the fiscal year  
8           for which the determination is made; and

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

16          “(B) paragraph (1)(B) shall apply with respect  
17          to subsequent fiscal years by substituting for the  
18          reference, in paragraph (1)(B)(i), to fiscal year 2013  
19          a reference to the last fiscal year in such period.

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

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

1           “(B) on the last day of which there are no out-  
 2           standing transition obligations of the Self-Liqui-  
 3           dating Social Security Transition Fund under sec-  
 4           tion 262.

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

8           “(A) the combined balance in the Federal Old-  
 9           Age and Survivors Insurance Trust Fund and the  
 10          Federal Disability Insurance Trust Fund, as of the  
 11          last day of such fiscal year; over

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

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

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

25          (a) IN GENERAL.—

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

5           **“PART IX—PERSONAL SOCIAL SECURITY**  
 6                                   **SAVINGS PROGRAM**

“Sec. 530A. Personal social security savings program

7           **“SEC. 530A. PERSONAL SOCIAL SECURITY SAVINGS PRO-**  
 8                                   **GRAM.**

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

17           “(b) DISTRIBUTIONS.—

18                   “(1) IN GENERAL.—Any qualified distribution  
 19 from—

20                           “(A) amounts credited to a personal social  
 21 security savings account from the Social Secu-  
 22 rity Personal Savings Fund or attributable to a  
 23 Tier III Investment Option, or

1           “(B) a personal social security savings an-  
2           nuity,  
3           shall not be included in the gross income of the dis-  
4           tributee.

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

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

12           “(1) PERSONAL SOCIAL SECURITY SAVINGS AC-  
13          COUNT.—The term ‘personal social security savings  
14          account’ means an account established under section  
15          254(a) of the Social Security Act.

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

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

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

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

12           (2) CONFORMING AMENDMENT.—Section  
13          86(d)(1)(A) of such Code is amended by inserting  
14          “part A of” after “under”.

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

          “PART IX. PERSONAL SOCIAL SECURITY SAVINGS PROGRAM.”.

19           (b) GUARANTY PAYMENTS.—Paragraph (1) of sec-  
20          tion 86(d) of the Internal Revenue Act of 1986, as amend-  
21          ed by subsection (b), is amended by striking “or” at the  
22          end of subparagraph (A), by striking the period and in-  
23          serting “, or” at the end of subparagraph (B), and by  
24          adding at the end the following new subparagraph:



1 Security, the Secretary of the Treasury, and the  
2 members of the Personal Social Security Savings  
3 Board.

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

5 “(A) provide for the issuance of obligations  
6 by the Transition Fund pursuant to subsection  
7 (c),

8 “(B) provide for the receipt and manage-  
9 ment of amounts paid into the Transition Fund  
10 pursuant to subsection (d),

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

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

20 “(E) review the general policies followed in  
21 managing the Transition Fund, and recommend  
22 changes in such policies, including necessary  
23 changes in the provisions of law which govern  
24 the way in which the Transition Fund is to be  
25 managed.

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

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

5           “(1) ISSUANCE.—

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

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

21           “(C) TRANSFER OF PROCEEDS TO GEN-  
22 ERAL FUND OF THE TREASURY.—Proceeds  
23 from the issuance of any obligation issued  
24 under this section shall be transferred to the  
25 general fund of the Treasury.

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

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

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

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

1           “(1) IN GENERAL.—There are appropriated to  
2           the Transition Fund for the fiscal year beginning in  
3           2030, and for each fiscal year thereafter, out of any  
4           moneys in the Federal Old-Age and Survivors Insur-  
5           ance Trust Fund, amounts equivalent to the OASDI  
6           trust fund surplus (as defined in paragraph (2)) for  
7           the preceding fiscal year.

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

18          “(3) OASDI TRUST FUND SURPLUS DE-  
19          FINED.—In this section, the term ‘OASDI trust  
20          fund surplus’ for a fiscal year means the dollar  
21          amount by which the Federal Old-Age and Survivors  
22          Insurance Trust Fund could be reduced as of the  
23          end of such fiscal year so as to result in an OASDI  
24          trust fund ratio (as defined in section 201(p)(4)) for  
25          such fiscal year equal to 125 percent.

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

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

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

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

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

24                 “BUDGETARY TREATMENT OF SOCIAL SECURITY

25                 “SEC. 710. (a) IN GENERAL.—Notwithstanding any  
 26          other provision of law and except as provided in subsection

1 (b), the receipts and disbursements of the Federal Old-  
2 Age and Survivors Insurance Trust Fund, the Federal  
3 Disability Insurance Trust Fund, the Social Security Per-  
4 sonal Savings Fund, and the Self-Liquidating Social Secu-  
5 rity Transition Fund (including transfers to and from ei-  
6 ther such Trust Fund or such Savings Fund or such Tran-  
7 sition Fund relating to the acquisition or redemption of  
8 obligations acquired by either such Trust Fund or such  
9 Savings Fund or such Transition Fund) and the taxes im-  
10 posed under sections 1401 and 3101 of the Internal Rev-  
11 enue Code of 1986 shall not be counted as new budget  
12 authority, outlays, receipts, or deficit or surplus for pur-  
13 poses of the budget of the Government as submitted by  
14 the President or the congressional budget or be reported  
15 as new budget authority, outlays, receipts, or deficit or  
16 surplus in any report of the Congressional Budget Office  
17 or any other agency or instrumentality of the Government

18 “(b) MATTERS INCLUDED IN THE BUDGET.—Sub-  
19 section (a) shall not apply with respect to the following:

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

1           “(2) transfers from the general fund of the  
2 Treasury to the Federal Old-Age and Survivors In-  
3 surance Trust Fund under section 201(p) (relating  
4 to recapture of Government savings over baseline),  
5 which shall be treated as an expenditure of the Gov-  
6 ernment;

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

15           “(4) revenues from taxes imposed under chap-  
16 ter 1 of the Internal Revenue Code of 1986, to the  
17 extent attributable to section 86 of such Code (relat-  
18 ing to taxation of social security and tier 1 railroad  
19 retirement benefits), which shall be treated as a re-  
20 ceipt of the Government.”.

21 (b) CONFORMING AMENDMENTS.—

22           (1) Section 13301 of the Budget Enforcement  
23 Act of 1990 (2 U.S.C. 632; 2 U.S.C. 632 note) is  
24 repealed.

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

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

6           (B) by striking “section, not including”  
7 and all that follows through “Funds,” and in-  
8 serting “section” .

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

12 **SEC. 107. DEDICATION OF BUDGET SURPLUSES TO SAVING**  
13 **SOCIAL SECURITY.**

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

17           “Transfer of Total Budget Surpluses to Trust Fund

18           “(q) In the case of any fiscal year for which the total  
19 amount treated as income of the Federal Government in  
20 the total budget of the United States have exceeded the  
21 total amount treated as expenditures of the Federal Gov-  
22 ernment in the total budget of the United States (as deter-  
23 mined by the Director of the Office of Management and  
24 Budget without regard to section 710), not later than 3  
25 months after the end of such fiscal year, the Secretary

1 of the Treasury shall transfer from the general fund of  
2 the Treasury to the Federal Old-Age and Survivors Insur-  
3 ance Trust Fund an amount equal to the lesser of—

4           “(1) the total amount transferred from the  
5 Trust Fund during such fiscal year to the Social Se-  
6 curity Personal Savings Fund under section 252(b)  
7 (relating to deposit of amounts equal to redirected  
8 social security contributions), or

9           “(2) the amount by which such total amount  
10 treated as receipts exceeded such total amount treat-  
11 ed as expenditures.”.

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

15 **SEC. 108. ACCOUNTING FOR THE OLD-AGE, SURVIVORS,**  
16 **AND DISABILITY INSURANCE PROGRAM AND**  
17 **THE PERSONAL SOCIAL SECURITY SAVINGS**  
18 **PROGRAM.**

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

1 “ACCOUNTING FOR THE OLD-AGE, SURVIVORS, AND DIS-  
2 ABILITY INSURANCE PROGRAM AND THE INDIVIDUAL  
3 SOCIAL SECURITY INVESTMENT PROGRAM.

4 “Social Security Lockbox Budget.

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

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

14 “(2) the amount of the total charges and the  
15 amount of the total credits to each account for the  
16 year, and

17 “(3) the amount of the total for the year of  
18 each category of charges and credits itemized in sub-  
19 section (b).

20 “Establishment of Accounts

21 “(b) For purposes of accounting for certain receipts  
22 and disbursement of the Treasury of the United States  
23 in connection with the Old-Age, Survivors, and Disability  
24 Insurance Program under part A of title II of the Social  
25 Security Act and the Individual Social Security Invest-

1 ment Program under part B of such title, the Secretary  
2 of the Treasury shall establish and maintain a Social Se-  
3 curity Part A Account, a Social Security Part B Account,  
4 and a Self-Liquidating Social Security Transition Fund  
5 Account.

6 “Credits and Charges to the Social Security Part A

7 ACCOUNT

8 “(c)(1) For each fiscal year, the Social Security Part  
9 A Account shall be credited with the sum of—

10 “(A) all receipts during the year by the Federal  
11 Old-Age and Survivors Insurance Trust Fund and  
12 the Federal Disability Insurance Trust Fund under  
13 section 201 (including amounts received as interest  
14 on notes and obligations purchased by the Trust  
15 Funds under section 201(d) of such Act, and exclud-  
16 ing amounts received in redemption of such notes  
17 and obligations and amounts received by either such  
18 Trust Fund as transfers from the other such Trust  
19 Fund), and

20 “(B) all receipts during the year by the Federal  
21 Old-Age and Survivors Insurance Trust Fund and  
22 the Federal Disability Insurance Trust Fund under  
23 section 121(e) of the Social Security Amendments of  
24 1983 (relating to appropriation of amounts equiva-

1       lent to taxes on social security benefits) (42 U.S.C.  
2       401 note).

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

5               “(A) all benefits paid during the year from the  
6       Federal Old-Age and Survivors Insurance Trust  
7       Fund and the Federal Disability Insurance Trust  
8       Fund under part A of title II of the Social Security  
9       Act,

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

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

19              “(D) all transfers from the Federal Old-Age  
20       and Survivors Insurance Trust Fund to the Self-Liq-  
21       uidating Social Security Transition Fund under sec-  
22       tion 262(d).

1 “Charges and Credits to the Social Security Part B  
2 Account

3 “(d)(1) For each fiscal year, the Social Security Part  
4 B Account shall be credited with—

5 “(A) all redirected social security contributions  
6 transferred during the year to the Personal Social  
7 Security Savings Fund under section 252(b) of the  
8 Social Security Act, and

9 “(B) any net increase in the Tier I Investment  
10 Fund attributable to investment for the fiscal year,  
11 any net increase in the Tier II Investment Fund at-  
12 tributable to investment for the fiscal year, and the  
13 total amount of any net increases in Tier III Invest-  
14 ment Options attributable to investment for the fis-  
15 cal year.

16 “(2) For each fiscal year, the Social Security Part  
17 B Account shall be charged with—

18 “(A) all administrative costs incurred for the  
19 fiscal year with respect to the Tier I Investment  
20 Fund, the Tier II Investment Fund, and the Tier III  
21 Investment Options,

22 “(B) any net decrease in the Tier I Investment  
23 Fund attributable to investment for the fiscal year,  
24 any net decrease in the Tier II Investment Fund at-  
25 tributable to investment for the fiscal year, and the

1 total amount of any net decreases in Tier III Invest-  
2 ment Options attributable to investment for the fis-  
3 cal year, and

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

7 “Charges and Credits to the Self-Liquidating Social  
8 Security Transition Fund Account

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

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

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

18 “(2) For each fiscal year, the Self-Liquidating Social  
19 Security Transition Fund Account shall be charged with  
20 the total amount of obligations issued during the fiscal  
21 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:

“Sec. 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 Mar-  
8       iana Islands Covenant grants (14-0412-0-1-806);

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

11            “Bureau of Indian Affairs, miscellaneous pay-  
12       ments to Indians (14-2303-0-1-452);

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

15            “Claims, defense;

16            “Claims, judgments, and relief act (20-1895-  
17       0-1-806);

18            “Compact of Free Association, economic assist-  
19       ance pursuant to Public Law 99-658 (14-0415-0-  
20       1-806);

21            “Compensation of the President (11-0001-0-  
22       1-802);

23            “Customs Service, miscellaneous permanent ap-  
24       propriations (20-9992-0-2-852);

1           “Eastern Indian land claims settlement fund  
2           (14-2202-0-1-806);

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

5           “Farm Credit System Financial Assistance Cor-  
6           poration, interest payments (20-1850-0-1-351);

7           “Internal Revenue collections of Puerto Rico  
8           (20-5737-0-2-852);

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

11          “Payments of Vietnam and USS Pueblo pris-  
12          oner-of-war claims (15-0104-0-1-153);

13          “Payments to copyright owners (03-5175-0-2-  
14          376);

15          “Payments to health care trust funds (75-  
16          0580-0-1-571);

17          “Payments to social security trust funds (75-  
18          0404-0-1-651);

19          “Payments to the United States territories, fis-  
20          cal assistance (14-0418-0-1-801);

21          “Payments to widows and heirs of deceased  
22          Members of Congress (00-0215-0-1-801);

23          “Pension Benefit Guaranty Corporation Fund  
24          (16-4204-0-3-601);

25          “Salaries of Article III judges;

1           “Washington Metropolitan Area Transit Au-  
2           thority, interest payments (46-0300-0-1-401);

3           “(8) the following noncredit special, revolving,  
4           or trust-revolving funds:

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

6           “Comptroller of the Currency;

7           “Director of the Office of Thrift Supervision;

8           “Exchange Stabilization Fund (20-4444-0-3-  
9           155);

10          “Federal Housing Finance Board;

11          “Foreign Military Sales trust fund (11-82232-  
12          0-7-155);

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

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

17          “National Credit Union Administration oper-  
18          ating fund (25-4056-0-3-373); and

19          “Resolution Trust Corporation Revolving Fund  
20          (22-4055-0-3-373);

21          “(9) Thrift Savings Fund;

22          “(10) appropriations for the District of Colum-  
23          bia to the extent they are appropriations of locally  
24          raised funds;

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

5           “(B) any advance made to a State from the  
6           Federal unemployment account (established by sec-  
7           tion 904(g) of such Act) under title XII of such Act  
8           and any advance appropriated to the Federal unem-  
9           ployment account pursuant to section 1203 of such  
10          Act; and

11          “(C) any payment made from the Federal Em-  
12          ployees Compensation Account (as established under  
13          section 909 of such Act) for the purpose of carrying  
14          out chapter 85 of title 5, United States Code, and  
15          funds appropriated or transferred to or otherwise  
16          deposited in such Account; and

17          “(12)(A) FDIC, Bank Insurance Fund (51-  
18          4064-0-3-373);

19          “(B) FDIC, FSLIC Resolution Fund (51-  
20          4065-0-3-373); and

21          “(C) FDIC, Savings Association Insurance  
22          Fund (51-4066-0-3-373).

23          “(c) FEDERAL RETIREMENT AND DISABILITY AC-  
24          COUNTS.—The following Federal retirement and disability

1 accounts shall be exempt from reduction under any order  
2 issued under this part:

3 “Civil service retirement and disability fund (24–  
4 8135–0–7–602).

5 “Black Lung Disability Trust Fund (20–8144–0–7–  
6 601).

7 “Foreign Service Retirement and Disability Fund  
8 (19–8186–0–7–602).

9 “District of Columbia Judicial Retirement and Sur-  
10 vivors Annuity Fund (20–8212–0–7–602).

11 “Judicial Survivors’ Annuities Fund (10–8110–0–7–  
12 602).

13 “Payments to the Railroad Retirement Accounts  
14 (60–0113–0–1–601).

15 “Tax Court Judges Survivors Annuity Fund (23–  
16 8115–0–7–602).

17 “Employees Life Insurance Fund (24–8424–0–8–  
18 602).

19 “(d) FEDERAL ADMINISTRATIVE EXPENSES.—

20 “(1) Notwithstanding any provision of law  
21 other than paragraph (3), administrative expenses  
22 incurred by the departments and agencies, including  
23 independent agencies, of the Government in connec-  
24 tion with any program, project, activity, or account  
25 shall be subject to reduction pursuant to any seques-

1       tration order, without regard to any exemption, ex-  
2       ception, limitation, or special rule otherwise applica-  
3       ble with respect to such program, project, activity,  
4       or account, and regardless of whether the program,  
5       project, activity, or account is self-supporting and  
6       does not receive appropriations.

7               “(2) Payments made by the Government to re-  
8       imburse or match administrative costs incurred by a  
9       State or political subdivision under or in connection  
10      with any program, project, activity, or account shall  
11      not be considered administrative expenses of the  
12      Government for purposes of this section, and shall  
13      be subject to sequestration to the extent (and only  
14      to the extent) that other payments made by the Gov-  
15      ernment under or in connection with that program,  
16      project, activity, or account are subject to that re-  
17      duction or sequestration; except that Federal pay-  
18      ments made to a State as reimbursement of admin-  
19      istrative costs incurred by that State under or in  
20      connection with the unemployment compensation  
21      programs specified in subsection (a)(11) shall be  
22      subject to reduction or sequestration under this part  
23      notwithstanding the exemption otherwise granted to  
24      such programs under that subsection.

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

4           “(A) Comptroller of the Currency.

5           “(B) Federal Deposit Insurance Corpora-  
6 tion.

7           “(C) Office of Thrift Supervision.

8           “(D) National Credit Union Administra-  
9 tion.

10           “(E) National Credit Union Administra-  
11 tion, central liquidity facility.

12           “(F) Federal Retirement Thrift Invest-  
13 ment Board.

14           “(G) Resolution Funding Corporation.

15           “(H) Resolution Trust Corporation.

16           “(I) Board of Governors of the Federal  
17 Reserve System.

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

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

22           “Veterans Insurance and Indemnities (36–0120–0–  
23 1–701).

24           “Service-Disabled Veterans Insurance Funds (36–  
25 4012–0–3–701).

1 “Veterans Reopened Insurance Fund (36–4010–0–3–  
2 701).

3 “Servicemembers’ Group Life Insurance Fund (36–  
4 4009–0–3–701).

5 “Post-Vietnam Era Veterans Education Account  
6 (36–8133–0–7–702).

7 “National Service Life Insurance Fund (36–8132–0–  
8 7–701).

9 “United States Government Life Insurance Fund  
10 (36–8150–0–7–701).

11 “Veterans Special Life Insurance Fund (36–8455–0–  
12 8–701).

13 “(f) OPTIONAL EXEMPTION OF DEFENSE AND  
14 HOMELAND SECURITY ACCOUNTS.—

15 “(1) IN GENERAL.—The President may, with  
16 respect to any defense or homeland security account,  
17 exempt that account from sequestration or provide  
18 for a lower uniform percentage reduction than would  
19 otherwise apply.

20 “(2) LIMITATION.—The President may not use  
21 the authority provided by paragraph (1) unless the  
22 President notifies the Congress of the manner in  
23 which such authority will be exercised on or before  
24 the date specified in section 254(a) for the budget  
25 year.”.

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

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

5 **“SEC. 256. EXCEPTIONS, LIMITATIONS, AND SPECIAL**  
6 **RULES.**

7 “(a) NATIONAL WOOL ACT AND THE SPECIAL MILK  
8 PROGRAM.—Automatic spending increases are increases  
9 in outlays due to changes in indexes in the following pro-  
10 grams:

11 “(1) National Wool Act; and

12 “(2) Special milk program.

13 In those programs all amounts other than the automatic  
14 spending increases shall be exempt from reduction under  
15 any sequestration order.

16 “(b) STUDENT LOANS.—For all student loans under  
17 part B or D of title IV of the Higher Education Act of  
18 1965 made during the period when a sequestration order  
19 under section 254 is in effect as required by section 252  
20 or 253, origination fees under sections 438(c)(2) and  
21 455(c) of that Act shall each be increased by 0.50 percent-  
22 age point.

23 “(c) FOSTER CARE AND ADOPTION ASSISTANCE  
24 PROGRAMS.—Any sequestration order shall make the re-  
25 duction otherwise required under the foster care and adop-  
26 tion assistance programs (established by part E of title

1 IV of the Social Security Act) only with respect to pay-  
2 ments and expenditures made by States in which increases  
3 in foster care maintenance payment rates or adoption as-  
4 sistance payment rates (or both) are to take effect during  
5 the fiscal year involved, and only to the extent that the  
6 required reduction can be accomplished by applying a uni-  
7 form percentage reduction to the Federal matching pay-  
8 ments that each such State would otherwise receive under  
9 section 474 of that Act (for such fiscal year) for that por-  
10 tion of the State's payments attributable to the increases  
11 taking effect during that year. No State's matching pay-  
12 ments from the Government for foster care maintenance  
13 payments or for adoption assistance maintenance pay-  
14 ments may be reduced by a percentage exceeding the ap-  
15 plicable domestic sequestration percentage. No State may,  
16 after the date of the enactment of this Act, make any  
17 change in the timetable for making payments under a  
18 State plan approved under part E of title IV of the Social  
19 Security Act which has the effect of changing the fiscal  
20 year in which expenditures under such part are made.

21       “(d) LOW-INCOME PROGRAMS.—(1) Benefit pay-  
22 ments or payments to States or other entities for the pro-  
23 grams listed in paragraph (2) shall not be reduced by  
24 more than 2 percent under any sequestration order. When  
25 reduced under an end-of-session sequestration order, those

1 benefit reductions shall occur starting with the payment  
2 made at the start of January. When reduced under a with-  
3 in-session sequestration order, those benefit reductions  
4 shall occur starting with the next periodic payment.

5 “(2) The programs referred to in paragraph (1) are  
6 the following:

7 “Child Nutrition (12–3539–0–1–605).

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

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

10 “State Children’s Health Insurance Fund (75–0515–  
11 0–1–551).

12 “Supplemental Security Income Program (75–0406–  
13 0–1–609).

14 “Temporary Assistance for Needy Families (75–  
15 1552–0–1–609).

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

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

23 “(f) FEDERAL RETIREMENT PROGRAMS.—

24 “(1) For each of the programs listed in para-  
25 graph (2) and except as provided in paragraph (3),

1 monthly (or other periodic) benefit payments shall  
2 be reduced by the uniform percentage applicable to  
3 direct spending sequestrations for such programs,  
4 which shall in no case exceed 2 percent under any  
5 sequestration order. When reduced under an end-of-  
6 session sequestration order, those benefit reductions  
7 shall occur starting with the payment made at the  
8 start of January or 7 weeks after the order is  
9 issued, whichever is later. When reduced under a  
10 within-session sequestration order, those benefit re-  
11 ductions shall occur starting with the next periodic  
12 payment.

13 “(2) The programs subject to paragraph (1)  
14 are:

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

17 “Comptrollers General Retirement System (05–  
18 0107–0–1–801) Payments to the Foreign Service Re-  
19 tirement and Disability Fund (72–1036–0–1–153).

20 “Judicial Officer’ Retirement Fund (10–8122–  
21 0–7–602).

22 “Claims Judges’ Retirement Fund (10–8124–  
23 0–7–602).

24 “Pensions for former Presidents (47–0105–0–  
25 1–802).

1           “National Oceanic and Atmospheric Adminis-  
2           tration Retirement (13-1450-0-1-306).

3           “Railroad Industry Pension Fund (60-8011-0-  
4           7-601).

5           “Retired pay, Coast Guard (70-0602-0-1-  
6           403).

7           “Retirement pay and medical benefits for com-  
8           missioned officers, Public Health Service (75-0379-  
9           0-1-551).

10          “Payments to Civil Service Retirement and Dis-  
11          ability Fund (24-0200-0-1-805).

12          “Payments to the Foreign Service Retirement  
13          and Disability Fund (72-1036-0-1-153).

14          “Payments to Judiciary Trust Funds (10-  
15          0941-0-1-752).

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

21          “Canteen Service Revolving Fund (36-4014-0-3-  
22          705).

23          “Medical Center Research Organizations (36-4026-  
24          0-3-703).

1 “Disability Compensation Benefits (36–0102–0–1–  
2 701).

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

4 “Vocational Rehabilitation and Employment Benefits  
5 (36–0135–0–1–702).

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

7 “Burial Benefits (36–0139–0–1–701).

8 “Guaranteed Transitional Housing Loans For Home-  
9 less Veterans Program Account (36–1119–0–1–704).

10 “Housing Direct Loan Financing Account (36–4127–  
11 0–1–704).

12 “Housing Guaranteed Loan Financing Account (36–  
13 4129–0–3–704).

14 “Vocational Rehabilitation and Education Direct  
15 Loan Financing Account (36–4259–0–3–702).

16 “(h) MILITARY HEALTH AND RETIREMENT.—To  
17 achieve the total percentage reduction in military retire-  
18 ment required by any order issued under this part, the  
19 percentage reduction that shall apply to payments under  
20 the Military retirement fund (97–8097–0–7–602), pay-  
21 ments to the military retirement fund (97–0040–0–1–  
22 054), and the Defense Health Program (97–0130–0–1–  
23 051) shall in no event exceed 2 percent.

24 “(i) MEDICARE PROGRAM.—

1           “(1) CALCULATION OF REDUCTION IN INDI-  
2           VIDUAL PAYMENT AMOUNTS.—To achieve the total  
3           percentage reduction in those programs required by  
4           any order issued under this part, the percentage re-  
5           duction that shall apply to payments under the  
6           health insurance programs under title XVIII of the  
7           Social Security Act (other than payments described  
8           in section 255(a)(2)) that are subject to such order  
9           for services furnished after any sequestration order  
10          is issued shall be such that the reduction made in  
11          payments under that order shall achieve the required  
12          total percentage reduction in those payments for  
13          that fiscal year as determined on a 12-month basis.  
14          However, the percentage reduction under any such  
15          program shall in no case exceed 2 percent under any  
16          sequestration order.

17          “(2) TIMING OF APPLICATION OF REDUC-  
18          TIONS.—If a reduction is made under paragraph (1)  
19          in payment amounts pursuant to a sequestration  
20          order, the reduction shall be applied to payment for  
21          services furnished after the effective date of the  
22          order.

23          “(3) NO INCREASE IN BENEFICIARY CHARGES  
24          IN ASSIGNMENT-RELATED CASES.—If a reduction in  
25          payment amounts is made under paragraph (1) for

1 services for which payment under part B of title  
2 XVIII of the Social Security Act is made on the  
3 basis of an assignment described in section  
4 1842(b)(3)(B)(ii), in accordance with section  
5 1842(b)(6)(B), or under the procedure described in  
6 section 1870(f)(1) of such Act, the person furnishing  
7 the services shall be considered to have accepted  
8 payment of the reasonable charge for the services,  
9 less any reduction in payment amount made pursu-  
10 ant to a sequestration order, as payment in full.

11 “(4) APPLICATION TO PARTS C AND D.—The  
12 reductions otherwise required under parts C and D  
13 of title XVIII of the Social Security Act with respect  
14 to a fiscal year shall be applied to the calendar year  
15 that begins after the end of the fiscal year to which  
16 the applicable sequestration order applies.

17 “(j) FEDERAL PAY.—

18 “(1) IN GENERAL.—For purposes of any order  
19 issued under section 254, new budget authority to  
20 pay Federal personnel shall be reduced by the appli-  
21 cable uniform percentage, but no sequestration order  
22 may reduce or have the effect of reducing the rate  
23 of pay to which any individual is entitled under any  
24 statutory pay system (as increased by any amount  
25 payable under section 5304 of title 5, United States

1 Code, or section 302 of the Federal Employees Pay  
2 Comparability Act of 1990) or the rate of any ele-  
3 ment of military pay to which any individual is enti-  
4 tled under title 37, United States Code, or any in-  
5 crease in rates of pay which is scheduled to take ef-  
6 fect under section 5303 of title 5, United States  
7 Code, section 1009 of title 37, United States Code,  
8 or any other provision of law.

9 “(2) DEFINITIONS.—For purposes of this sub-  
10 section:

11 “(A) The term ‘statutory pay system’ shall  
12 have the meaning given that term in section  
13 5302(1) of title 5, United States Code.

14 “(B) The term ‘elements of military pay’  
15 means—

16 “(i) the elements of compensation of  
17 members of the uniformed services speci-  
18 fied in section 1009 of title 37, United  
19 States Code,

20 “(ii) allowances provided members of  
21 the uniformed services under sections 403a  
22 and 405 of such title, and

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

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

4           “(k) CHILD SUPPORT ENFORCEMENT PROGRAM.—  
5 Any sequestration order shall accomplish the full amount  
6 of any required reduction in expenditures under sections  
7 455 and 458 of the Social Security Act by reducing the  
8 Federal matching rate for State administrative costs  
9 under such program, as specified (for the fiscal year in-  
10 volved) in section 455(a) of such Act, to the extent nec-  
11 essary to reduce such expenditures by that amount.

12          “(l) EXTENDED UNEMPLOYMENT COMPENSATION.—  
13 (1) A State may reduce each weekly benefit payment made  
14 under the Federal-State Extended Unemployment Com-  
15 pensation Act of 1970 for any week of unemployment oc-  
16 ccurring during any period with respect to which payments  
17 are reduced under an order issued under this title by a  
18 percentage not to exceed the percentage by which the Fed-  
19 eral payment to the State under section 204 of such Act  
20 is to be reduced for such week as a result of such order.

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

25          “(m) COMMODITY CREDIT CORPORATION.—

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

9           “(2) REDUCTION IN PAYMENTS MADE UNDER  
10          CONTRACTS.—(A) Payments and loan eligibility  
11          under any contract entered into with a person by the  
12          Commodity Credit Corporation prior to the time any  
13          sequestration order has been issued shall not be re-  
14          duced by an order subsequently issued. Subject to  
15          subparagraph (B), after any sequestration order is  
16          issued for a fiscal year, any cash payments made by  
17          the Commodity Credit Corporation—

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

21                 “(ii) out of an entitlement account, to any  
22                 person (including any producer, lender, or guar-  
23                 antee entity) shall be subject to reduction under  
24                 the order.

1           “(B) Each contract entered into with producers  
2           or producer cooperatives with respect to a particular  
3           crop of a commodity and subject to reduction under  
4           subparagraph (A) shall be reduced in accordance  
5           with the same terms and conditions. If some, but  
6           not all, contracts applicable to a crop of a com-  
7           modity have been entered into prior to the issuance  
8           of any sequestration order, the order shall provide  
9           that the necessary reduction in payments under con-  
10          tracts applicable to the commodity be uniformly ap-  
11          plied to all contracts for succeeding crops of the  
12          commodity, under the authority provided in para-  
13          graph (3).

14           “(3) DELAYED REDUCTION IN OUTLAYS PER-  
15          MISSIBLE.—Notwithstanding any other provision of  
16          this title, if any sequestration order is issued with  
17          respect to a fiscal year, any reduction under the  
18          order applicable to contracts described in paragraph  
19          (2) may provide for reductions in outlays for the ac-  
20          count involved to occur in the fiscal years following  
21          the fiscal year to which the order applies.

22           “(4) UNIFORM PERCENTAGE RATE OF REDUC-  
23          TION AND OTHER LIMITATIONS.—All reductions de-  
24          scribed in paragraph (2) that are required to be

1 made in connection with any sequestration order  
2 with respect to a fiscal year—

3 “(A) shall be made so as to ensure that  
4 outlays for each program, project, activity, or  
5 account involved are reduced by a percentage  
6 rate that is uniform for all such programs,  
7 projects, activities, and accounts, and may not  
8 be made so as to achieve a percentage rate of  
9 reduction in any such item exceeding the rate  
10 specified in the order; and

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

15 “(i) uncertainty as to the scope of  
16 benefits under any such program is mini-  
17 mized;

18 “(ii) any instability in market prices  
19 for agricultural commodities resulting from  
20 the reduction is minimized; and

21 “(iii) normal production and mar-  
22 keting relationships among agricultural  
23 commodities (including both contract and  
24 non-contract commodities) are not dis-  
25 torted.

1 In meeting the criterion set out in clause (iii)  
2 of subparagraph (B) of the preceding sentence,  
3 the President shall take into consideration that  
4 reductions under an order may apply to pro-  
5 grams for two or more agricultural commodities  
6 that use the same type of production or mar-  
7 keting resources or that are alternative com-  
8 modities among which a producer could choose  
9 in making annual production decisions.

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

15 “(n) POSTAL SERVICE FUND.—Notwithstanding any  
16 other provision of law, any sequestration of the Postal  
17 Service Fund shall be accomplished by a payment from  
18 that Fund to the General Fund of the Treasury, and the  
19 Postmaster General of the United States shall make the  
20 full amount of that payment during the fiscal year to  
21 which the presidential sequestration order applies.

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

24 “(1) Budgetary resources sequestered from any  
25 account other than an entitlement trust, special, or

1 revolving fund account shall revert to the Treasury  
2 and be permanently canceled.

3 “(2) Except as otherwise provided, the same  
4 percentage sequestration shall apply to all programs,  
5 projects, and activities within a budget account (with  
6 programs, projects, and activities as delineated in  
7 the appropriation Act or accompanying report for  
8 the relevant fiscal year covering that account, or for  
9 accounts not included in appropriation Acts, as de-  
10 lineated in the most recently submitted President’s  
11 budget).

12 “(3) Administrative regulations or similar ac-  
13 tions implementing a sequestration shall be made  
14 within 120 days of the sequestration order. To the  
15 extent that formula allocations differ at different  
16 levels of budgetary resources within an account, pro-  
17 gram, project, or activity, the sequestration shall be  
18 interpreted as producing a lower total appropriation,  
19 with that lower appropriation being obligated as  
20 though it had been the pre-sequestration appropria-  
21 tion and no sequestration had occurred.

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

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

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

13          (b) CONFORMING AMENDMENT.—The table of con-  
14          tents set forth in 250(c) of the Balanced Budget and  
15          Emergency Deficit Control Act of 1985 is amended by  
16          amending the item relating to section 256 to read as fol-  
17          lows:

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

18          **SEC. 204. POINT OF ORDER.**

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

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

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

3           “(2) includes any provision that has the effect  
4 of modifying the application of section 252A of the  
5 Balanced Budget and Emergency Deficit Control  
6 Act of 1985 to any entitlement program subject to  
7 sequestration or exempt from sequestration under  
8 such Act.”.

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

10           The Balanced Budget and Emergency Deficit Control  
11 Act of 1985 is amended as follows:

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

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

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

19           “(5) DIRECT SPENDING CONTROL SEQUESTRA-  
20 TION REPORTS.—The preview reports shall set forth,  
21 for the current year and the budget year, estimates  
22 for each of the following:

23           “(A) The total level of direct spending for  
24 all programs, projects, and activities (excluding  
25 social security).

1           “(B) The sequestration percentage or (if  
2           the required sequestration percentage is greater  
3           than the maximum allowable percentage for  
4           medicare) percentages necessary to comply with  
5           section 252A.”.

6           (4) Section 254(f) is amended by redesignating  
7           paragraphs (4) and (5) as paragraphs (5) and (6)  
8           and by inserting after paragraph (3) the following  
9           new paragraph:

10           “(4) DIRECT SPENDING CONTROL SEQUESTRA-  
11           TION REPORTS.—The final reports shall contain all  
12           the information required in the direct spending con-  
13           trol sequestration preview reports. In addition, these  
14           reports shall contain, for the budget year, for each  
15           account to be sequestered, estimates of the baseline  
16           level of sequesterable budgetary resources and re-  
17           sulting outlays and the amount of budgetary re-  
18           sources to be sequestered and resulting outlay reduc-  
19           tions. The reports shall also contain estimates of the  
20           effects on outlays of the sequestration in each out-  
21           year for direct spending programs.”.

22           (5) Section 258C(a)(1) is amended by inserting  
23           “, 252A,” after “section 252”.

1                   **Subtitle B—Discretionary**  
2                   **Spending Limits**

3 **SEC. 211. ENFORCING DISCRETIONARY SPENDING LIMITS.**

4           (a) DISCRETIONARY SPENDING LIMITS.—Sections  
5 251(b) and (c) of the Balanced Budget and Emergency  
6 Deficit Control of Act of 1985 are amended to read as  
7 follows:

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

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

11                           “(A) \$861,577,682,000 in new budget au-  
12 thority of which no more than  
13 \$412,947,276,000 shall be for functions other  
14 than National Defense (050); and

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

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

19                           “(A) \$880,532,400,000 in new budget au-  
20 thority of which no more than  
21 \$422,032,100,000 shall be for functions other  
22 than National Defense (050); and

23                           “(B) \$\_\_\_\_\_ in outlays of which no  
24 more than \$\_\_\_\_\_ shall be for functions  
25 other than National Defense (050);

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

2 “(A) \$899,904,100,000 in new budget au-  
3 thority of which no more than  
4 \$431,316,800,000 shall be for functions other  
5 than National Defense (050); and

6 “(B) \$\_\_\_\_\_ in outlays of which no  
7 more than \$\_\_\_\_\_ shall be for functions  
8 other than National Defense (050);

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

10 “(A) \$919,702,000,000 in new budget au-  
11 thority of which no more than  
12 \$440,805,800,000 shall be for functions other  
13 than National Defense (050); and

14 “(B) \$\_\_\_\_\_ in outlays of which no  
15 more than \$\_\_\_\_\_ shall be for functions  
16 other than National Defense (050);

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

18 “(A) \$939,935,400,000 in new budget au-  
19 thority of which no more than  
20 \$450,503,500,000 shall be for functions other  
21 than National Defense (050); and

22 “(B) \$\_\_\_\_\_ in outlays of which no  
23 more than \$\_\_\_\_\_ shall be for functions  
24 other than National Defense (050);

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

1           “(A) \$960,614,000,000 in new budget au-  
2           thority of which no more than  
3           \$460,414,600,000 shall be for functions other  
4           than National Defense (050); and

5           “(B) \$\_\_\_\_\_ in outlays of which no  
6           more than \$\_\_\_\_\_ shall be for functions  
7           other than National Defense (050);

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

9           “(A) \$981,747,500,000 in new budget au-  
10          thority of which no more than  
11          \$470,543,700,000 shall be for functions other  
12          than National Defense (050); and

13          “(B) \$\_\_\_\_\_ in outlays of which no  
14          more than \$\_\_\_\_\_ shall be for functions  
15          other than National Defense (050);

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

17          “(A) \$1,003,346,000,000 in new budget  
18          authority of which no more than  
19          \$480,895,700,000 shall be for functions other  
20          than National Defense (050); and

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

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

1           “(A) \$1,025,419,600,000 in new budget  
2 authority of which no more than  
3 \$491,475,400,000 shall be for functions other  
4 than National Defense (050); and

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

8           (b) DISCRETIONARY SPENDING LIMIT POINT OF  
9 ORDER.—Section 312 of the Congressional Budget Act of  
10 1974 (as amended by section 204) is further amended by  
11 adding at the end the following new subsection:

12           “(h) DISCRETIONARY SPENDING LIMIT POINT OF  
13 ORDER.—It shall not be in order in the House of Rep-  
14 resentatives or the Senate to consider any bill, joint resolu-  
15 tion, amendment, or conference report that—

16           “(1) increases the discretionary spending limits  
17 for any ensuing fiscal year after the budget year; or

18           “(2) would cause the discretionary spending  
19 limits for the budget year to be breached.”.

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

24           “(i) ADVANCE APPROPRIATION POINT OF ORDER.—  
25 It shall not be in order in the House of Representatives

1 or the Senate to consider any appropriation bill or joint  
2 resolution, or amendment thereto or conference report  
3 thereon, that provides advance discretionary new budget  
4 authority that first becomes available for any fiscal year  
5 after the budget year at an amount for any program,  
6 project, or activity above the amount of appropriations for  
7 fiscal year 2006 for such program, project, or activity.”.

8 (d) EXTENSION OF GRAMM-RUDMAN.—Section  
9 275(b) of the Balanced Budget and Emergency Deficit  
10 Control of Act of 1985 is amended by striking “2002”  
11 and inserting “2015” and by striking “2006” and insert-  
12 ing “2019”.

○