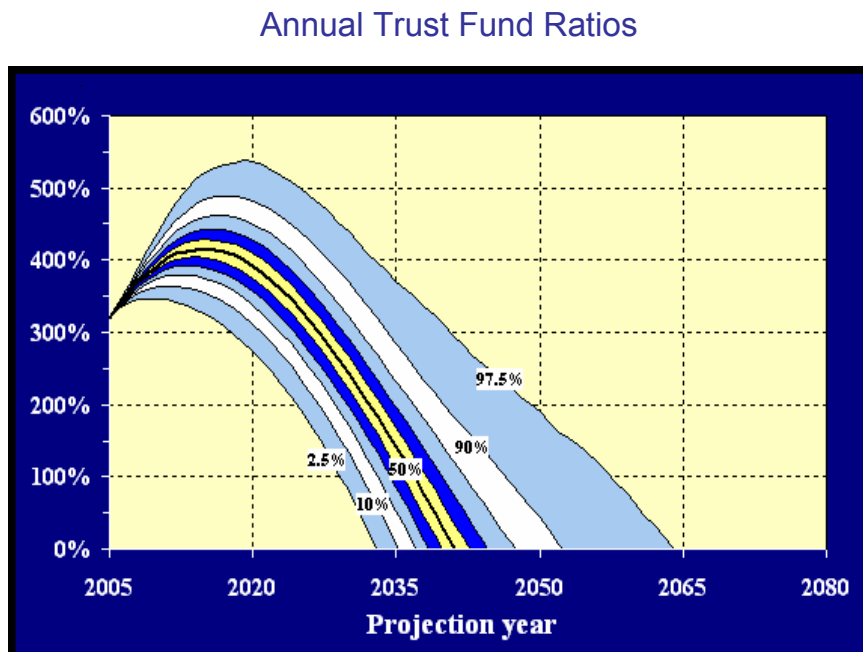
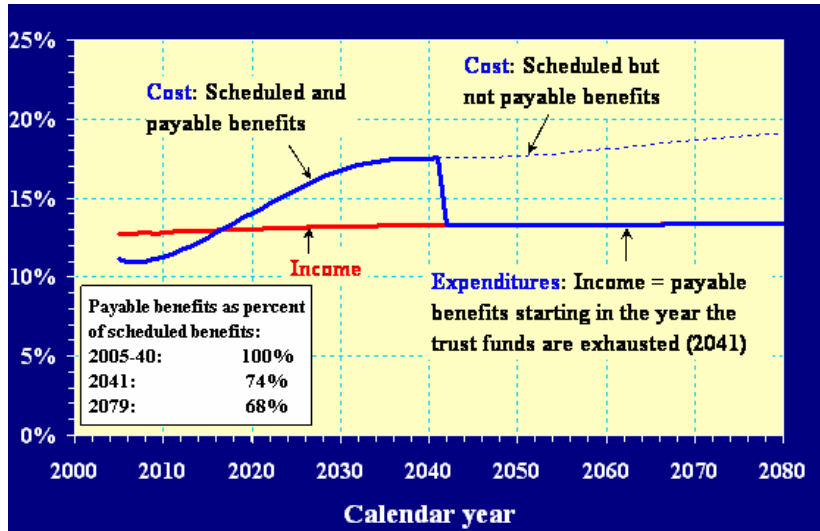


Reforming Public Pensions



Source: 2005 Annual Trustees Report, Figure VI.E1.

OASDI Income and Cost Rates Under Intermediate Assumptions (as a percentage of taxable payroll)



Source: 2005 Annual Trustees Report, Figure II.D2.

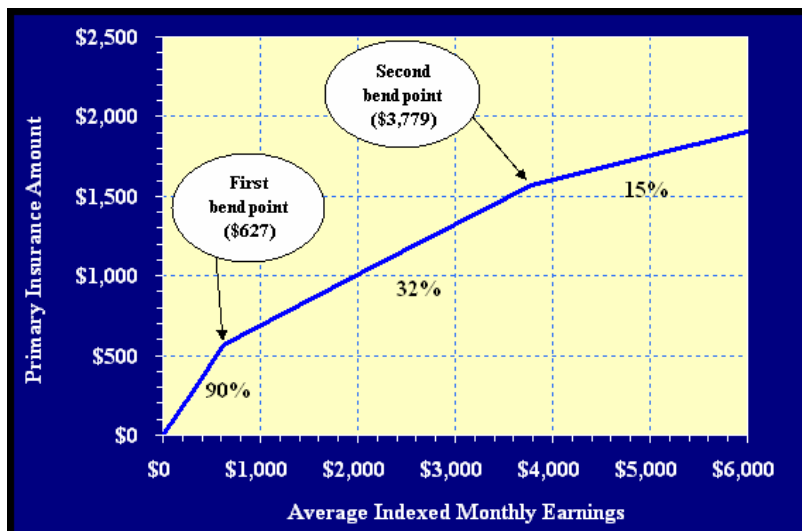
Old Age, Survivors and Disability Insurance (OASDI)

Payroll tax rate12.4%, up to cap of \$90,000 (indexed to average earnings)

Benefit Determination

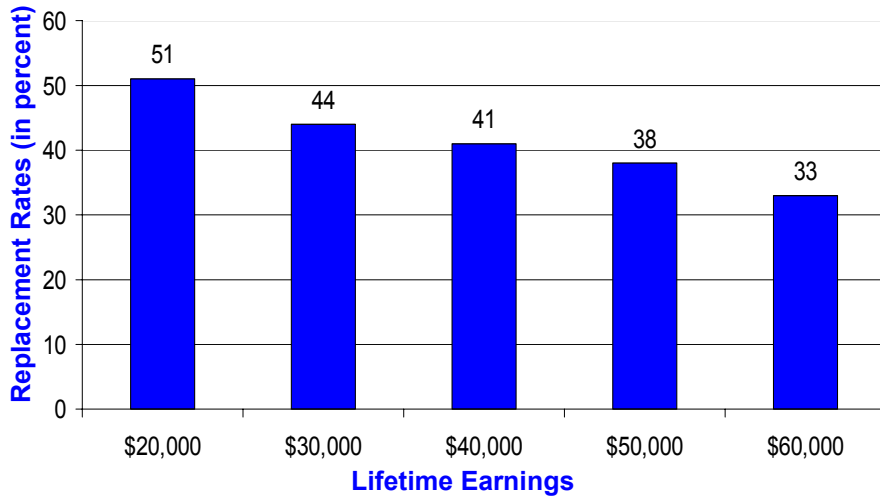
- Average the best 35 wage indexed annual earnings (AIME)
- Use a progressive benefit formula ($PIA = f [AIME]$)
- Adjust benefits from PIA if they start other than at the age for full benefits (commonly called the normal retirement age)
- No benefits before age 62
- Between 62 and the age for full benefits (which is in transition from 65 to 67), benefits are only paid if earnings are low enough, referred to as an earnings or retirement test.
- No further increases for a delayed start beyond age 70

Primary-Insurance-Amount Formula for the 2005 Cohort



Source: 2005 Annual Trustees Report, Figure V.C1.

Replacement Rates



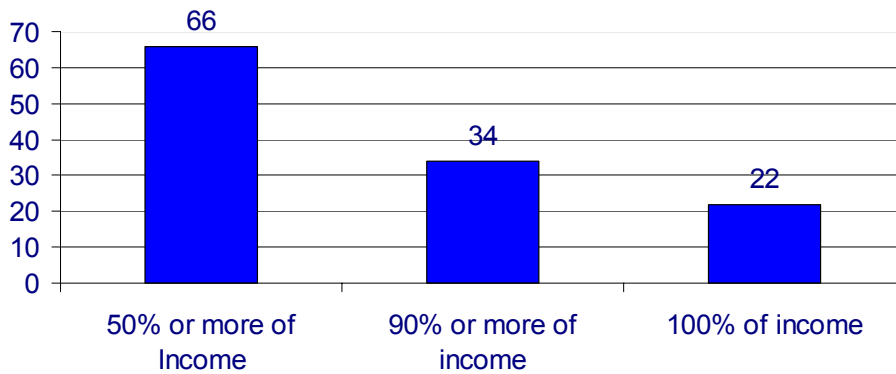
Replacement of Lifetime Earnings for Single Scaled Workers Retiring at the Age for Full Benefits in 2004. Source: Social Security Administration, Office of the Chief Actuary, Actuarial Note 2004.4, December 2004.

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"Winning is crucial to my retirement plans."

Ratio of Social Security to Total Income, 2002

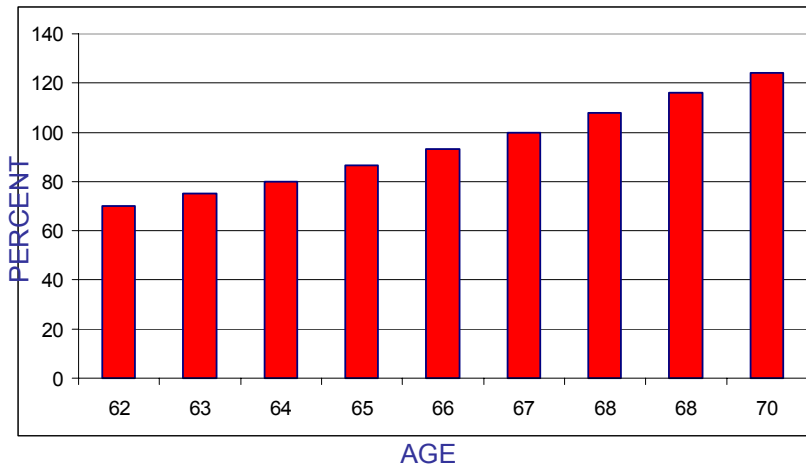


Source: Fast Facts and Figures about Social Security, 2004, SSA Office of Policy Publication No. 13 11785

Benefit Determination

- Average the best 35 wage indexed annual earnings (AIME)
- Use a progressive benefit formula ($PIA = f [AIME]$)
- Adjust benefits from PIA if they start other than at the age for full benefits (commonly called the normal retirement age)
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- Between 62 and the age for full benefits (which is in transition from 65 to 67), benefits are only paid if earnings are low enough, referred to as an earnings or retirement test.
- No further increases for a delayed start beyond age 70

BENEFIT LEVEL FOR DIFFERENT AGES AT START OF BENEFITS

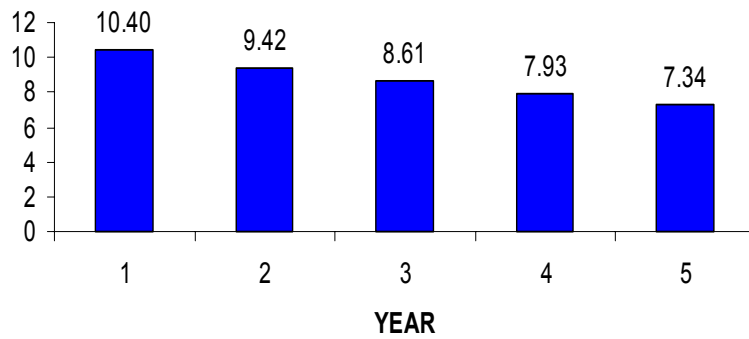


For an age for full benefits (normal retirement age) of 67.

PERCENTAGE INCREASE IN MONTHLY BENEFIT FROM DELAY IN START OF BENEFITS BY ONE YEAR IN THE US

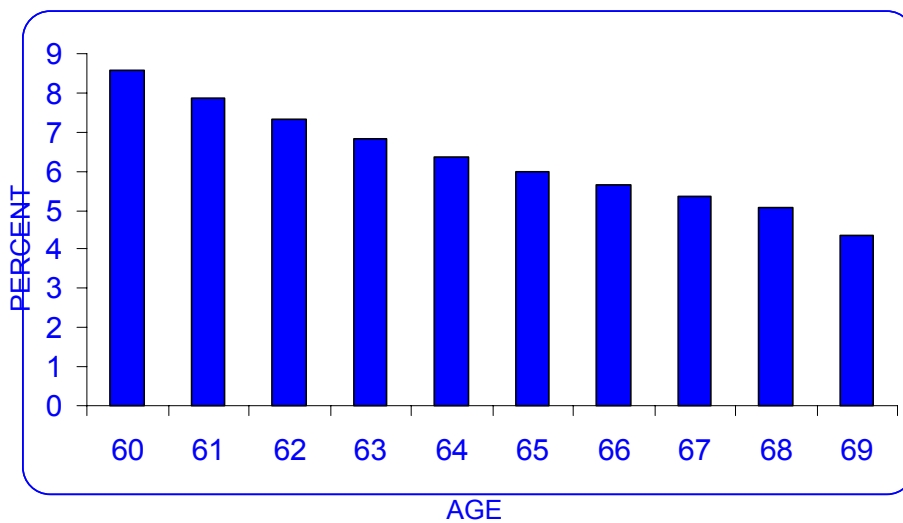


Percentage Increase in Basic State Pension from Delay of Start of Benefits by One to Five Years in the UK



Additional benefit of 10.4% per year of delay

PERCENTAGE INCREASE IN BENEFIT FROM ONE YEAR DELAY IN START OF BENEFITS IN CANADA



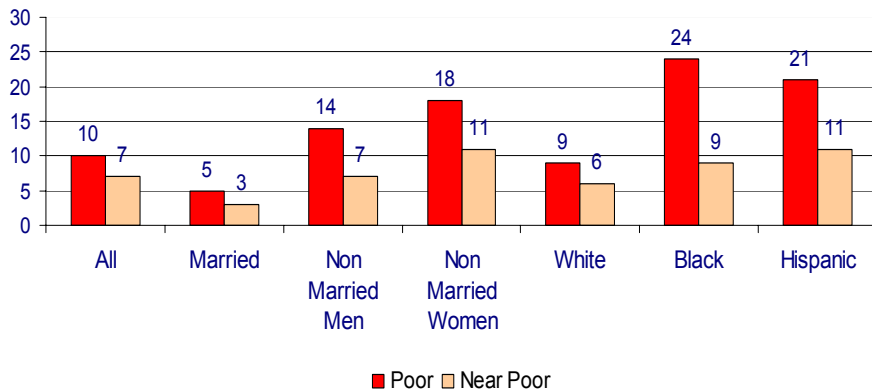
Benefit Determination

- Average the best 35 wage indexed annual earnings (AIME)
- Use a progressive benefit formula ($PIA = f [AIME]$)
- Adjust benefits from PIA if they start other than at the age for full benefits (commonly called the normal retirement age)
- No benefits before age 62
- Between 62 and the age for full benefits (which is in transition from 65 to 67), benefits are only paid if earnings are low enough, referred to as an earnings or retirement test.
- No further increases for a delayed start beyond age 70

Vulnerable groups

- Long-career low earners
- Widows and widowers with low benefits
- Disabled workers
- Surviving children

Poverty and Near Poverty Status Based on Family Income, 2002



Source: Fast Facts and Figures about Social Security, 2004, SSA Office of Policy Publication No. 13 11785

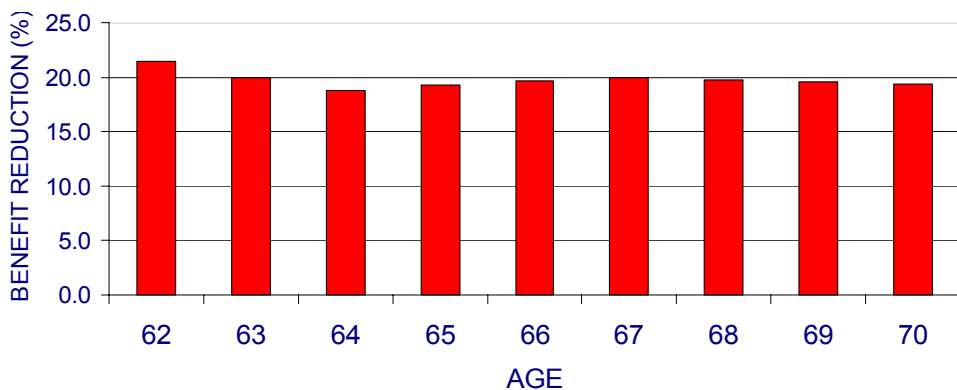
Revenue Increases

- Payroll tax
 - Rate
 - Maximum subject to tax
- Income tax
- Other
 - VAT
 - Estate tax
 - Transfer privatization assets

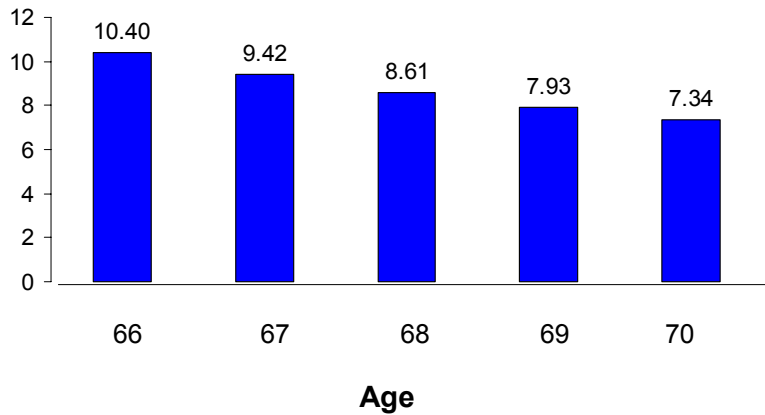
Benefit Decreases

- Legislate change
- Automatic adjustment for life expectancy
 - Benefit level
 - Normal Retirement Age (age for full benefits)
- Price indexing initial benefits
 - Progressive price indexing

BENEFIT REDUCTION FROM INCREASE IN
NORMAL RETIREMENT AGE FROM 67 TO 70



Benefit Cut from One-Year Increase in the State Pension Age (in percent)



Benefit Decreases

- Legislate change
- Automatic adjustment for life expectancy
 - Benefit level
 - Normal Retirement Age (age for full benefits)
- Price indexing initial benefits
 - Progressive price indexing

**EFFECT OF “PRICE INDEXING” OR
“REAL WAGE DEFLATING”
ON BENEFITS**

Age When Implemented	Change in Benefits from this Reform
55	-0.0%
45	-9.6%
35	-18.2%
25	-26.0%
15	-33.1%
5	-39.5%
0	-42.5%

Note: Calculated as $1 - (0.99^{55-\text{age}})$, assuming real wage growth rate is 1 percent per year.

**EFFECT OF “PRICE INDEXING” OR
“REAL WAGE DEFLATING”
ON BENEFITS**

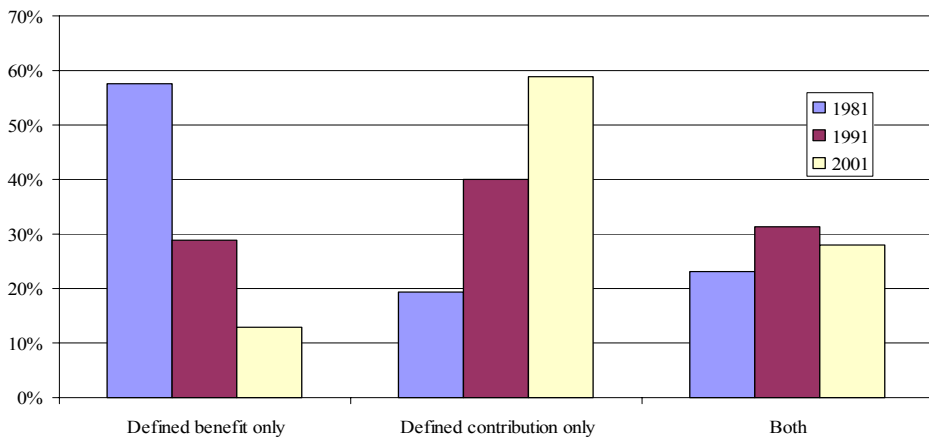
Age When Implemented	Change in Benefits from this Reform	
	with 1% real wage growth	with 1.5% real wage growth
55	-0.0%	-0.0%
45	-9.6%	-14.0%
35	-18.2%	-26.1%
25	-26.0%	-36.5%
15	-33.1%	-45.4%
5	-39.5%	-53.0%
0	-42.5%	-56.4%

Note: Calculated as $1 - (0.99^{55-\text{age}})$, and $1 - (0.985^{55-\text{age}})$.

Fully-funded Defined Contribution Individual Accounts

Pension coverage has shifted to defined contribution – 401(k) – plans.

Percent of Wage and Salary Workers with Pension Coverage by Type of Plan, 1981-2001



Source: U.S. Department of Labor. 2004. *Private Pension Plan Bulletin: Abstract of 1999 Form 5500 Annual Reports*; Alicia H. Munnell's calculations from Board of Governors of the Federal Reserve System. 2003. *2001 Survey of Consumer Finances*.

Pre-retirement issues

- Carve-out or add-on
- Voluntary or mandatory
 - annual or permanent
- Offset design and rate
- Organizing portfolio choice
- Disability
- Death (single, married, children)
- Divorce
- Early access

Post-retirement issues

- Annuitization
 - voluntary/mandatory/mixed
 - supplier
 - pricing
 - timing, earnings test
 - single life or joint
 - real, guarantees, taxation
- Lump sum
 - shared
 - bequeathed

NATIONAL
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INSURANCE

Uncharted Waters:

Paying Benefits From Individual Accounts
in Federal Retirement Policy

Study Panel Final Report

Co-Chairs

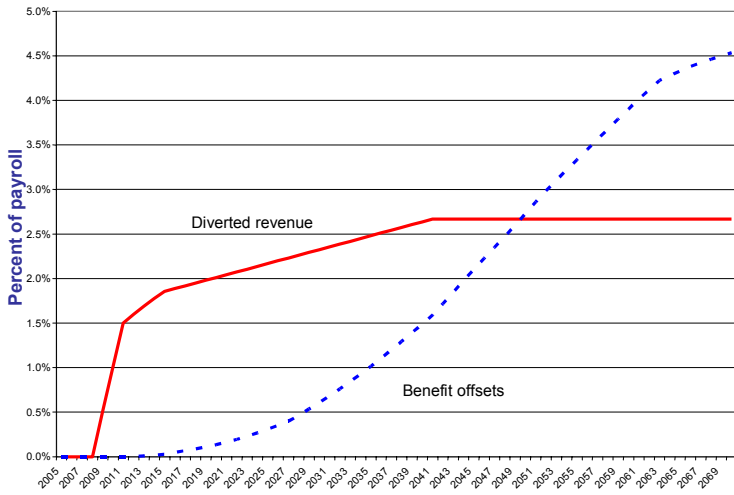
Kenneth S. Apfel

Michael J. Graetz

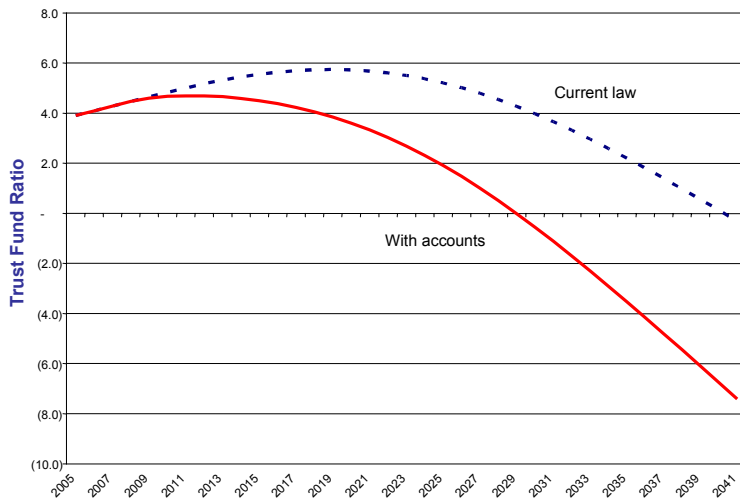
Aggregate finances

- Social Security
- Federal budget
 - implicit debt vs explicit debt
- National savings

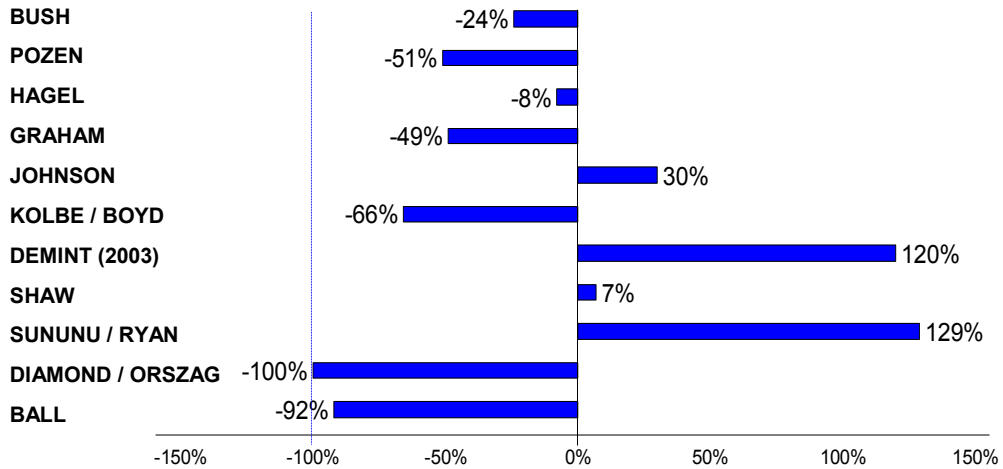
Cash-flow Effect from Administration's Individual Accounts Plan



Trust Fund Ratio under Administration's Individual Account Plan



**REDUCTION (-) / INCREASE (+) IN THE 75 YEAR
SOCIAL SECURITY SHORTFALL (in percent)
Over and Above the Levels that Would Otherwise Exist**

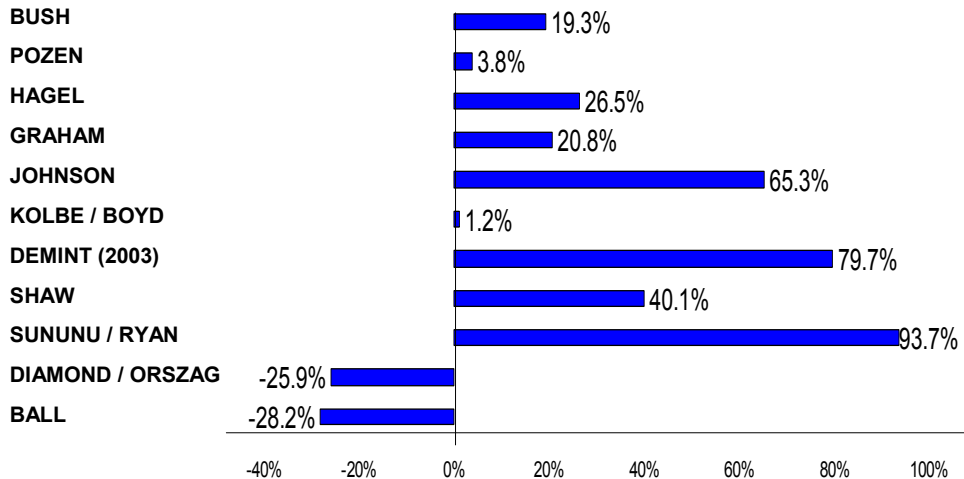


Source: "Private Accounts Would Substantially Increase Federal Debt and Interest Payments" by James Horney and Richard Kogan, Center on Budget and Policy Priorities, July 27, 2005.

Aggregate finances

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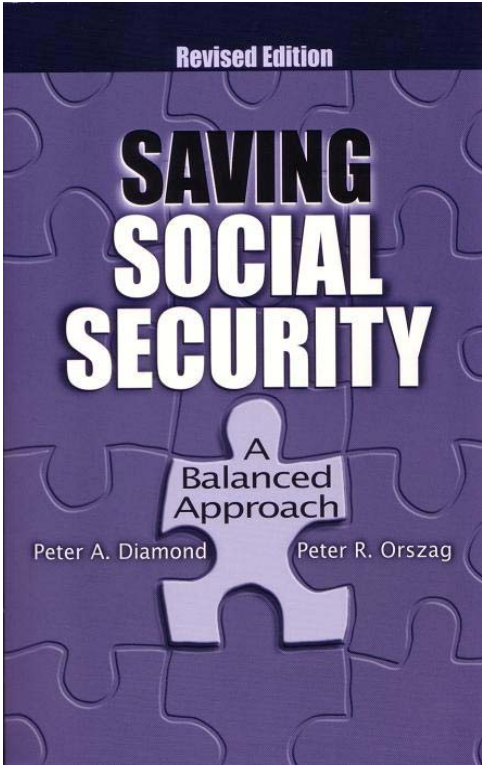
**INCREASE / REDUCTION OF FEDERAL DEBT IN 2050
(as Percent of GDP) RESULTING FROM
PROPOSED SOCIAL SECURITY PLANS
Over and Above the Levels that Would Otherwise Exist**



Source: "Private Accounts Would Substantially Increase Federal Debt and Interest Payments" by James Horney and Richard Kogan, Center on Budget and Policy Priorities, July 27, 2005.

Aggregate finances

- Social Security
- Federal budget
 - implicit debt vs explicit debt
- National savings



"Forget about me—save Social Security."