FOR MORE DETAIL ABOUT THE BALL/ALTMAN PROPOSAL, READ CHAPTER 16 OF *THE BATTLE FOR SOCIAL SECURITY:FROM FDR'S VISION TO BUSH'S GAMBLE*. BELOW IS A SUMMARY, TOGETHER WITH A SIDE-BY-SIDE COMPARISON OF PRESIDENT BUSH'S PLAN

BOB BALL-NANCY ALTMAN SOCIAL SECURITY REFORM PROPOSAL

(Achieves close actuarial balance* for full 75 year valuation period)

1. Freeze estate tax at 2009 level, and convert into dedicated Social Security tax, starting in 2010

2. Gradually increase taxable earnings base from current coverage of 85% of earnings, reaching 90 percent of earnings in 2043, the level set by Congress in 1983

3. Gradually invest part of trust fund assets in stocks (1% in 2006, 2% in 2007...up to 20% in 2025, but limited to 15 percent of all outstanding stocks)

PRESIDENT'S PROPOSAL	**VS.**	**BALL-ALTMAN PROPOSAL**
Combine wage/price indexing of Social Security initial benefits		**Freeze estate tax at 2009 level, and convert into a dedicated Social Security tax, starting in 2010**
People affected: 70% of workers and families		People affected: Heirs (other than spouses) of estates over $3.5 million ($7 million for couples)
Impact on people: Substantial and continuing reduction in retirement benefits as a percentage of pre-retirement earnings		Impact on people: No benefit cuts for anyone, almost all estates exempt from tax, wealthiest heirs will inherit larger percentage of estate than today;
Impact on program: Radically transforms philosophy (over time, benefits will become flat and minimal)		Impact on program: Philosophy and structure unchanged, current law benefits maintained, dedicated tax added, no general revenue
Private Investment Accounts.		**Social Security Trust Fund investment**
-Government selects indexed funds –Risk concentrated on individual; winners and losers –Risk of having to sell in down market on retirement –High administrative costs –Trillions of dollars of added cost –Does nothing for long-term Social Security deficit		-Same (Government selects indexed funds) –Risk is pooled and greatly reduced –Can wait out down market -Low administrative costs –No additional cost –Cuts long-term deficit significantly (see page 3)
______		**Raise maximum taxable wage base** –Complies with 1983 Congressional intent –Corrects effect of growing disparity between high wage earners and other earners –Affects only 6% of all workers –People affected will have FICA withholding for no more than one additional week each year
BOTTOM LINE: CUTS BENEFITS FOR ALL BUT THE POOR		**BOTTOM LINE: PROTECTS BENEFITS FOR EVERYONE**

BACKGROUND ON BALL-ALTMAN PROPOSAL

1. Freeze estate tax at 2009 level, and convert into dedicated Social Security tax, starting in 2010

The estate tax exclusion and tax rate over the next five years are:

Year	Excluded amount	Tax rate
2005	$1.5 million	47 percent
2006	$2 million	46 percent
2007-2008	$2 million	45 percent
2009	$3.5 million	45 percent

2. Gradually increase maximum taxable earnings base

In 1983, Congress set the maximum taxable earnings base at 90 percent of covered wages and provided that it would be raised automatically every year as average wages increased, returning it to the level it has been through most of the program's history – to cover 90 percent of wages.

The 2005 maximum taxable wage base of $90,000 covers only about 85 percent of covered earnings because wages at higher levels rose faster than those at lower levels over the last two decades.

To avoid a sudden increase in taxes paid, the 90 percent is reached extremely gradually, around 2043.

Higher income workers would qualify for higher benefits as a result of the additional contributions, but nevertheless the change results in a net gain for the system.

3. Gradually invest some of the Social Security trust fund assets in stocks

Almost all public and private pension funds invest in the stock market. Public funds include the Federal Railroad Retirement Plan, the Federal Reserve Board pension plan, and the TVA plan.

Social Security would eventually invest up to 20 percent of trust fund assets (with a limit of 15 percent of all outstanding stock) in broadly indexed equity funds.

Provide safeguards, through a Federal Reserve-type board with staggered, lengthy terms, to select indexed funds and fund managers by competitive bid from among experienced professionals.

* These three proposals with interactions achieve **close actuarial balance**, which is a test that the Trustees have used over the years to determine whether or not it was important to make changes in the financing of the program. The Trustees have realized, that it is impossible, of course, to make exact estimates over a period as long as 75 years so they introduced this test defining a reasonable leeway. They have set the test as "income within plus-or-minus five percent of outgo over 75 years," the usual estimating period. Close actuarial balance today is a deficit of anything less than about 0.70 percent of payroll.

ADDITIONAL OPTIONS (Gives Social Security a cushion)

A. Adopt the more accurate consumer price index recently developed by the Bureau of Labor Statistics (the so-called "chained" index).

B. Beginning in 2010, cover all new state and local employees under Social Security

Currently, 75 percent of state and local employees are already covered.

The change has been advocated by many advisory councils in the past.

C. 0.5 contribution rate increase on employees and employers each in 2023, when otherwise the trust fund ratio at the beginning of the year to benefit payments the following year would start to decline.

Provides security and peace of mind, so every change in assumptions doesn't raise cries of crisis.

May be easily moved up or back or changed in amounts as future projections warrant

BALL-ALTMAN SOCIAL SECURITY REFORM PROPOSAL

	Percent of payroll
Starting point: The 75-year deficit as projected by the trustees' 2004 middle-range estimate**:	-1.89
Deficit-reduction steps:	
1. **Dedicate the residual estate tax to Social Security** effective in 2010, with the rate set, as provided for in 2009 under present law, to tax only estates of more than $3.5 million, ($7 million couples) at a rate of 45 percent:	+0.51
2. **Increase the earnings base** Gradually restore the maximum taxable earnings base to 90 percent, the level set by Congress in 1983:	+0.61
3. **Invest assets of the trust funds in stocks**, reaching 1 percent of assets at the end of 2006, 2 percent at the end of 2007...up to 20 percent for 2025 and later, but limit assets to 15 percent of the total market value of all domestic stocks:	+0.37
Total for 1 through 3	+1.47
Deficit well within close actuarial balance (about 0.70 percent of payroll)	-0.41

**The estimates in this table have been made by the Office of the Actuary, Social Security Administration, based on the assumptions underlying the middle-range estimates of the 2004 Trustees Report It will take time to shift to using the 2005 report and the differences will be very small, for example, a 1.92 percent of payroll deficit in 2005 instead of 1.89 in 2004. Consequently, the Social Security actuaries will be working from the 2004 report for some time

ADDITIONAL OPTIONS

		Percent of payroll
	Starting point: The 75-year deficit as projected by the trustees' 2004 middle-range estimate**:	-1.89
	Total for Ball-Altman Proposal	**+1.47**
	Deficit well within close actuarial balance (about 0.70 percent of payroll)	-0.41
A.	**Improve the accuracy of the COLA** In computing the annual Cost of Living Adjustment (COLA), use the Bureau of Labor Statistics' most recently developed and most accurate Consumer Price Index (CPI), the "chained" index:	+0.35
B.	**Make the program universal** Cover all state and local government employees hired after 2009:	+0.19
	Total reductions – Ball-Altman Proposal plus Options A and B (taking interactions of the above proposals into account):	+1.94
	75-year balance:	+0.05
C..	**0.5 contribution rate increase on employees and employers each in 2023**, when otherwise the ratio of the Trust Fund at the beginning of a year to the benefits in the following year starts to decline:	+0.60
	Total reductions – Ball-Altman Proposal plus Options A and B (taking interactions of the above proposals into account):	+2.54
	Program kept in balance for many decades beyond the traditional 75 years	+0.65

Robert M. Ball served as Commissioner of Social Security under Presidents Kennedy, Johnson, and Nixon, served on many statutory advisory councils, and on the bipartisan commission that produced the 1983 amendments. His latest book is *Insuring the Essentials: Bob Ball on Social Security*, The Century Foundation Press, New York, NY 2000.

Nancy J. Altman was a legislative assistant to Senator John C. Danforth and was assistant to the chairman of the commission that produced the 1983 amendments. She was on the faculty of Harvard University's Kennedy School of Government and taught courses on Social Security and private pensions at the Harvard Law School. Currently, she is Chairman of the Board of Directors of the Pension Rights Center. Her book, *The Battle For Social Security: From FDR's Vision to Bush's Gam*ble (John Wiley & Sons, 2005) provides a more detailed description of the proposal.