

107TH CONGRESS
2^D SESSION

H. R. 5734

To amend title II of the Social Security Act and the Internal Revenue Code of 1986 to provide prospectively for personalized retirement security through personal retirement savings accounts to allow for more control by individuals over their Social Security retirement income, to amend such title and the Balanced Budget and Emergency Deficit Control Act of 1985 to protect social security surpluses, and to provide other reforms relating to benefits under such title II.

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 14, 2002

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

A BILL

To amend title II of the Social Security Act and the Internal Revenue Code of 1986 to provide prospectively for personalized retirement security through personal retirement savings accounts to allow for more control by individuals over their Social Security retirement income, to amend such title and the Balanced Budget and Emergency Deficit Control Act of 1985 to protect social security surpluses, and to provide other reforms relating to benefits under such title II.

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

1 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

2 (a) **SHORT TITLE.**—This Act may be cited as the
3 “Retirement Security Act”.

4 (b) **TABLE OF CONTENTS.**—

Sec. 1. Short title; table of contents.

Sec. 2. Findings and purposes.

TITLE I—INDIVIDUAL RETIREMENT SECURITY PROGRAM

Sec. 101. Establishment of individual retirement security program.

Sec. 102. Adjustments in amounts appropriated to the Federal Old-Age and Survivors Insurance Trust Fund based on reallocation percentage.

Sec. 103. Adjustments to primary insurance amounts under part A of title II of the Social Security Act.

Sec. 104. Personal retirement savings accounts.

Sec. 105. Individual retirement security program refundable credit.

TITLE II—SOCIAL SECURITY SURPLUS PROTECTION

Sec. 201. Transfers of budget surpluses to Federal Old-Age and Survivors Insurance Trust Fund.

TITLE III—SOCIAL SECURITY BENEFIT REFORMS

Sec. 301. Gradual increase in retirement age and early retirement age.

Sec. 302. Adjustments to bend points in determining primary insurance amounts.

Sec. 303. Information relating to benefit limitations provided in social security account statements.

Sec. 304. Coverage of newly hired State and local employees.

Sec. 305. Increase in monthly insurance benefits for widows and widowers.

Sec. 306. Acceleration of increase in delayed retirement credit.

Sec. 307. Authorization for reimbursement of Federal Disability Insurance Trust Fund for certain costs of disability insurance benefits.

Sec. 308. Study to develop recommendations for providing for elections under which individuals may opt for exclusion from social security coverage.

Sec. 309. Increase in number of years disregarded in determining average annual earnings on which benefit amounts are based where remunerative work is precluded by need to provide child care.

Sec. 310. Exclusion of disabled adult children from reduction in benefits under the family maximum provisions.

TITLE IV—RETIREMENT SECURITY

Sec. 401. Pensions and individual retirement arrangement provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 made permanent.

Sec. 402. Acceleration of phase-ins of scheduled increases in IRA and pension plan contribution limits.

Sec. 403. Refundable credit for premiums on qualified long-term care insurance contracts.

Sec. 404. Tax credit for taxpayers providing care for dependent parents in their households.

Sec. 405. Nonrefundable tax credit for expenses of seniors for maintaining a principal residence.

1 **SEC. 2. FINDINGS AND PURPOSES.**

2 (a) FINDINGS.—On July 15, 1999, the House Budget
3 Committee Social Security Task Force adopted the fol-
4 lowing Findings by unanimous vote on July 15, 1999:

5 (1) Time is the enemy of Social Security reform
6 and we should move without delay. Prompt action
7 will give us time to institute gradual reforms that
8 allow workers to plan for their retirement and mini-
9 mizes the impact for current or near-term retirees.

10 (2) The Social Security Trust Fund is a secure,
11 legal entity comprised of U.S. Treasury Bonds
12 backed by the full faith and credit of the U.S. Gov-
13 ernment. While the U.S. has never defaulted on any
14 of its obligations, these represent a legal claim on
15 future Federal revenue. Such securities will have to
16 be redeemed from funds outside the Trust Fund
17 itself.

18 (3) Any reform must consider the effects on all
19 generations, genders, and those currently receiving
20 Social Security benefits. Since current demographic
21 projections may very well underestimate future life
22 expectancy, reform proposals should insure that the

1 intergenerational balance that has characterized this
2 program remains intact.

3 (4) No payroll tax increase.

4 (5) A universal Social Security survivor and dis-
5 ability benefit program needs to be maintained. To
6 shield the disabled and those who have been in the
7 system a short time, general fund monies should be
8 used to supplement program benefits.

9 (6) Social Security surpluses should only be
10 spent for Social Security and should support a re-
11 form program that encourages savings and overall
12 economic growth.

13 (7) Investment in the capital markets presents
14 an opportunity to restore Social Security's solvency.
15 The investment income generated by savings-based
16 reform should not be used for any purpose other
17 than retirement.

18 (8) Investments in personal accounts can be
19 managed to minimize administrative costs, avoiding
20 substantial reductions rates of return on investment.
21 Individual investors can use guaranteed return secu-
22 rities and annuities to create a personal investment
23 safety net that assures a stable retirement income
24 for each worker.

1 (b) ADDITIONAL FINDINGS.—The Congress adds the
2 following to the above Findings:

3 (1) One of America’s most popular Government
4 programs, Social Security, is in jeopardy. The 1998
5 Board of Trustee’s report states that the current
6 system faces an actuarial deficit of 2.09 percent of
7 taxable payroll. According to the 1998 Board of
8 Trustee’s report, the Social Security trust fund will
9 begin to run a deficit by 2014 and will be exhausted
10 by 2032.

11 (2) Helping assure Americans retirement secu-
12 rity is a major national goal.

13 (3) The Congress should strengthen Social Se-
14 curity to ensure Americans retirement security. The
15 changes made to strengthen Social Security should
16 create a solvent Social Security system, and avoid
17 payroll tax increases.

18 (4) The root causes of the weaknesses in the
19 current Social Security system are its inadequate
20 funding mechanism and changing demographics. So-
21 cial Security was designed in 1935 as a pay-as-you-
22 go system, in which current workers supported cur-
23 rent retirees. This design worked when America had
24 42 workers per beneficiary in 1945, but that ratio
25 has fallen over time. In 1999 there are only 3.2

1 workers per beneficiary, and by 2060 the ratio is
2 projected to fall to 1.8 workers per beneficiary. To
3 pay benefits to the rising number of retirees, the
4 Government has levied increasing payroll taxes on
5 workers. To maintain the program in its current
6 form, the Government will have to continue to raise
7 payroll taxes or substantially reduce benefits.

8 (5) The key to a more secure Social Security
9 system is increased savings and private investment.
10 We should move from a financing system based on
11 the Federal Government's power to tax workers to
12 one based on savings and investment accounts
13 owned and controlled by workers.

14 (6) Allowing workers to take advantage of high-
15 er investment returns will increase their income in
16 retirement. Over the last 100 years, the stock mar-
17 ket has earned roughly 7 percent after inflation
18 compared to a yield of 1.5 to 2 percent after infla-
19 tion projects by the Social Security Administration
20 for workers' payroll taxes. The difference is enor-
21 mous. For example, \$1,000 invested for 50 years at
22 2 percent becomes nearly \$2,700. The same amount
23 invested for 50 years at 7 percent becomes nearly
24 \$30,000.

1 (c) PURPOSES.—The purposes of this Act are as fol-
2 lows:

3 (1) To give workers and retirees more owner-
4 ship and control over their retirement savings.

5 (2) To improve the living standards of Amer-
6 ican seniors by allowing them to take advantage of
7 low-risk investment opportunities that earn higher
8 returns than those they can expect to realize under
9 the current Social Security system.

10 (3) To stimulate the American economy by in-
11 creasing savings and investment leading to higher
12 productivity, more jobs, and better wages.

13 (4) To ensure the solvency of the Social Secu-
14 rity system while maintaining an adequate reserve in
15 the Social Security trust fund.

16 **TITLE I—INDIVIDUAL RETIRE-** 17 **MENT SECURITY PROGRAM**

18 **SEC. 101. ESTABLISHMENT OF INDIVIDUAL RETIREMENT** 19 **PROGRAM.**

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

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

24 “PART A—INSURANCE BENEFITS”;

25 and

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

2 “PART B—INDIVIDUAL RETIREMENT SECURITY

3 PROGRAM

4 “DEPOSITS TO PERSONAL RETIREMENT SAVINGS

5 ACCOUNTS

6 “SEC. 251. (a) DESIGNATION OF PERSONAL RETIRE-

7 MENT SAVINGS ACCOUNTS BY PARTICIPATING INDIVID-

8 UALS.—

9 (1) IN GENERAL.—Under regulations prescribed
10 by the Board of Trustees, a participating individual,
11 and the spouse of such an individual, upon the at-
12 tainment of a minimum deposit balance in the In-
13 terim Investment Fund as described in subsection
14 (b), may designate, in writing filed with the Com-
15 missioner of Social Security in such form and man-
16 ner as may be prescribed in such regulations, one or
17 more personal retirement savings accounts to which
18 deposits with respect to the individual or spouse are
19 to be made under subsection (b). The individual or
20 spouse may designate other personal retirement sav-
21 ings accounts in lieu of or in addition to accounts
22 previously designated, in accordance with regulations
23 of the Board of Trustees.

1 (2) ELECTION NOT TO PARTICIPATE.—For pro-
2 visions relating to election not to be a participating
3 individual, see section 254(3)(B).

4 “(b) DEPOSITS TO PERSONAL RETIREMENT SAVINGS
5 ACCOUNTS.—

6 “(1) IN GENERAL.—In any case in which the
7 total amount in the Interim Investment Fund cred-
8 ited under section 252 to a participating individual
9 as of the end of any annual reporting month, ad-
10 justed so as to reflect net earnings and net losses at-
11 tributable to such amount from investment of the
12 balance in the Fund under section 252(c), equals or
13 exceeds the minimum deposit amount, the Secretary
14 of the Treasury shall, within 30 days after the end
15 of such month, notify the individual of the amount
16 credited to such individual in the Fund. If such total
17 amount credited to such individual as of the end of
18 such individual’s annual reporting month is at least
19 equal to the minimum deposit amount, pursuant to
20 the written election of such individual which is filed
21 in accordance with regulations of the Board of
22 Trustees and received by the Secretary of the Treas-
23 ury during the 90-day period following the individ-
24 ual’s annual reporting month, the Secretary of the
25 Treasury shall transfer such total amount from such

1 Fund to such personal retirement savings accounts
2 as are designated under subsection (a) with respect
3 to such individual.

4 “(2) DEFINITIONS.—For purposes of this sub-
5 section—

6 “(A) ANNUAL REPORTING MONTH.—The
7 term ‘annual reporting month’ means, in con-
8 nection with a participating individual, a cal-
9 endar month of the calendar year assigned to
10 such individual as his or her annual reporting
11 month according to a schedule that shall be
12 prescribed in regulations of the Board of Trust-
13 ees.

14 “(B) MINIMUM DEPOSIT BALANCE.—

15 “(i) IN GENERAL.—Subject to clause
16 (ii), the term ‘minimum deposit balance’
17 means an amount equal to \$2,500.

18 “(ii) ADJUSTMENTS.—The Secretary
19 of the Treasury shall adjust annually
20 (effective for annual reporting months oc-
21 ccurring after December 2003) the dollar
22 amount set forth in clause (i) under proce-
23 dures providing for adjustments in the
24 same manner and to the same extent as
25 adjustments are provided for under the

1 procedures used to adjust benefit amounts
2 under section 215(i)(2)(A), except that any
3 amount so adjusted that is not a multiple
4 of \$1.00 shall be rounded to the nearest
5 multiple of \$1.00.

6 “(c) LUMP SUM PAYMENT TO ESTATE UPON DEATH
7 OF ACCOUNT HOLDER.—Upon the death of the account
8 holder, the amount of any assets in the personal retire-
9 ment savings account shall be transferred in a lump sum,
10 under rules established by the Board of Trustees, to the
11 account holder’s estate.

12 “(d) PUBLIC EDUCATION EFFORT.—Under regula-
13 tions prescribed by the Board of Trustees, the Commis-
14 sioner of Social Security shall conduct a public education
15 effort. Such effort shall include dissemination to partici-
16 pating individuals of information that will assist them in
17 making educated investment decisions under the program
18 established under this part.

19 “INTERIM INVESTMENT FUND

20 “SEC. 252. (a) ESTABLISHMENT OF INTERIM IN-
21 VESTMENT FUND.—There is established in the Treasury
22 of the United States an Interim Investment Fund. The
23 Board of Trustees shall serve as trustees of such Fund.
24 The Fund consists of all amounts derived from payments
25 into the Fund under subsection (b) and remaining after
26 investment of such amounts under subsection (c), includ-

1 ing additional amounts derived as income from such in-
2 vestments. The amounts held in the Fund are appro-
3 priated and shall remain available without fiscal year limi-
4 tation to be held for investment under subsection (c), to
5 pay the administrative expenses related to the Fund and
6 to investment under subsection (c), and to make transfers
7 to personal retirement savings accounts under section
8 251(b)(1).

9 “(b) PAYMENTS INTO INTERIM INVESTMENT
10 FUND.—

11 “(1) IN GENERAL.—During each calendar year,
12 the Secretary of the Treasury shall deposit into the
13 Interim Investment Fund, from amounts otherwise
14 available in the general fund of the Treasury, a total
15 amount equal, in the aggregate, to 100 percent of
16 the redirected social security taxes for such calendar
17 year of each individual who is a participating indi-
18 vidual for such calendar year.

19 “(2) TRANSFERS BASED ON ESTIMATES.—The
20 amounts deposited pursuant to paragraph (1) shall
21 be transferred in at least monthly payments from
22 the general fund in the Treasury to the Interim In-
23 vestment Fund, such amounts to be determined on
24 the basis of estimates by the Secretary of the Treas-
25 ury of the taxes, specified in section 251(b)(1), paid

1 to or deposited into the Treasury; and proper adjust-
2 ments shall be made in amounts subsequently trans-
3 ferred to the extent prior estimates were in excess
4 of or were less than actual amounts.

5 “(3) SEPARATE ACCOUNTING AND CRED-
6 ITING.—Subject to this paragraph, the Secretary of
7 the Treasury shall provide for prompt, separate ac-
8 counting of the amounts deposited in the Interim In-
9 vestment Fund with respect to each individual dur-
10 ing each calendar year, together with any increases
11 or decreases therein for such year so as to reflect
12 the net returns and losses from investment thereof
13 while held in the Fund during such year. Such ac-
14 counting shall also take into account any adjust-
15 ments made pursuant to paragraph (2). Under such
16 accounting, amounts initially deposited into the
17 Fund during each fiscal year with respect to the re-
18 directed social security taxes of each participating
19 individual (including net returns and losses from the
20 investment thereof) shall be credited, not later than
21 the end of the succeeding fiscal year, as follows:

22 “(A) If the participating individual is not
23 married as of the end of the fiscal year in which
24 the amounts to be credited were deposited, such

1 amount shall be credited to such participating
2 individual.

3 “(B) If the participating individual is mar-
4 ried as of the end of such fiscal year—

5 “(i) 50 percent of such amounts shall
6 be credited to such participating individual,
7 and

8 “(ii) 50 percent of such amounts shall
9 be credited to the individual who is the
10 spouse of such individual as of the end of
11 such fiscal year.

12 “(4) REDIRECTED SOCIAL SECURITY TAXES.—
13 For purposes of paragraph (1), the term ‘redirected
14 social security taxes’ of an individual for a calendar
15 year means the product derived by multiplying—

16 “(A) the sum of the total taxes paid under
17 sections 3101(a) and 3111(a) of the Internal
18 Revenue Code of 1986 with respect to such in-
19 dividual during such calendar year, and the
20 total taxes paid under section 1401(a) of such
21 Code with respect to such individual during
22 such calendar year, by

23 “(B) the reallocation percentage declared
24 for such calendar year under section 201(n)(2)
25 of this Act.

1 “(c) INVESTMENT IN COMMON STOCK AND COR-
2 PORATE BONDS IN 3 ALTERNATIVE INVESTMENT AC-
3 COUNTS.—

4 “(1) IN GENERAL.—For purposes of investment
5 of the Interim Investment Fund, the Board of
6 Trustees shall divide the Fund into 3 investment ac-
7 counts. Such accounts shall consist of the 60/40 in-
8 vestment account, the 40/60 investment account,
9 and the 80/20 investment account. The Board of
10 Trustees shall contract with appropriate investment
11 managers selected for investment of amounts held in
12 each investment account.

13 “(2) RULES RELATING TO THE 60/40 INVEST-
14 MENT ACCOUNT.—

15 “(A) DEFAULT INVESTMENT ACCOUNT.—
16 Except as provided in an election in effect
17 under paragraph (3), amounts held in the In-
18 terim Investment Fund shall be credited to the
19 60/40 investment account and invested as pro-
20 vided in subparagraph (B).

21 “(B) INVESTMENT.—Each investment
22 manager selected under paragraph (1) for in-
23 vestment of amounts held in the 60/40 invest-
24 ment account shall invest such amounts under
25 regulations which shall be prescribed by the

1 Board of Trustees so as to ensure, to the max-
2 imum extent practicable, that, of the total bal-
3 ance in the Fund credited to such account and
4 available for investment (after allowing for ad-
5 ministrative expenses)—

6 “(i) 60 percent is invested in common
7 stock in accordance with paragraph (4),
8 and

9 “(ii) 40 percent is invested in cor-
10 porate bonds in accordance with paragraph
11 (5).

12 “(3) ELECTION OF TRANSFERS TO THE 40/60
13 INVESTMENT ACCOUNT AND THE 80/20 INVESTMENT
14 ACCOUNT.—

15 “(A) IN GENERAL.—Pursuant to any indi-
16 vidual’s written election filed in accordance with
17 regulations of the Board of Trustees and re-
18 ceived by the Secretary of the Treasury during
19 the period beginning January 1 of each year
20 and ending March 31 of such year, the Sec-
21 retary of the Treasury shall transfer to any of
22 the investment accounts in the Interim Invest-
23 ment Fund (whichever is designated in such
24 election), from either of the other investment
25 accounts in the Interim Investment Fund, the

1 amount credited to such other investment ac-
2 count as of the end of the fiscal year ending on
3 September 30 of the prior calendar year.

4 “(B) INVESTMENT OF 40/60 INVESTMENT
5 ACCOUNT.—Each investment manager selected
6 under paragraph (1) for investment of amounts
7 held in the 40/60 investment account shall in-
8 vest such amounts under regulations which
9 shall be prescribed by the Board of Trustees so
10 as to ensure, to the maximum extent prac-
11 ticable, that, of the total balance in the Fund
12 credited to such account and available for in-
13 vestment (after allowing for administrative ex-
14 penses)—

15 “(i) 40 percent is invested in common
16 stock in accordance with paragraph (4),
17 and

18 “(ii) 60 percent is invested in cor-
19 porate bonds in accordance with paragraph
20 (5).

21 “(C) INVESTMENT OF 80/20 INVESTMENT
22 ACCOUNT.—Each investment manager selected
23 under paragraph (1) for investment of amounts
24 held in the 80/20 investment account shall in-
25 vest such amounts under regulations which

1 shall be prescribed by the Board of Trustees so
2 as to ensure, to the maximum extent prac-
3 ticable, that, of the total balance in the Fund
4 credited to such account and available for in-
5 vestment (after allowing for administrative ex-
6 penses)—

7 “(i) 80 percent is invested in common
8 stock in accordance with paragraph (4),
9 and

10 “(ii) 20 percent is invested in cor-
11 porate bonds in accordance with paragraph
12 (5).

13 “(4) INVESTMENT IN COMMON STOCK.—In ac-
14 cordance with regulations which shall be prescribed
15 by the Board of Trustees, the Board of Trustees
16 shall establish standards which must be met by com-
17 mon stock selected for investment of the balance of
18 the Interim Investment Fund pursuant to paragraph
19 (2)(B)(i), (3)(B)(i), or (3)(C)(i). In conformity with
20 such standards, the Board of Trustees shall select,
21 for purposes of such investment, indices which are
22 comprised of common stock the aggregate market
23 value of which is, in each case, a reasonably broad
24 representation of publicly held companies whose
25 shares are traded on the equity markets. Amounts

1 invested in common stock by each investment man-
2 ager shall be held in a portfolio designed to replicate
3 the performance of one or more of such indices.

4 “(5) INVESTMENT IN CORPORATE BONDS.—In
5 accordance with regulations which shall be pre-
6 scribed by the Board of Trustees, the Board of
7 Trustees shall establish standards which must be
8 met by corporate bonds selected for investment of
9 the balance of the Interim Investment Fund pursu-
10 ant to paragraph (2)(B)(ii), (3)(B)(ii), or (3)(C)(ii).
11 Such standards shall take into account the com-
12 peting considerations of risk and return. Amounts
13 invested in corporate bonds by each investment man-
14 ager shall be held in a portfolio which shall consist
15 of a diverse range of corporate bonds, taking into
16 full account the opposing considerations of risk and
17 maximization of return.

18 “(d) LUMP SUM PAYMENT TO ESTATE UPON DEATH
19 OF PARTICIPATING INDIVIDUAL.—Upon the death of a
20 participating individual, the amount of any assets in the
21 Interim Investment Fund credited to such individual shall
22 be transferred in a lump sum, under rules established by
23 the Board of Trustees, to such individual’s estate.

24 “PERIODIC REPORTS BY ACCOUNT TRUSTEE

25 “SEC. 253. (a) IN GENERAL.—The trustee of a per-
26 sonal retirement savings account shall make periodic re-

1 ports concerning the status of the account which shall
2 meet the requirements of section 531(g)(2) of the Internal
3 Revenue Code of 1986 and of this section. Each periodic
4 report shall be furnished to the account holder on at least
5 a semiannual basis on or before the 60th day following
6 the period for which the report is required.

7 “(b) INFORMATION REQUIRED TO BE INCLUDED.—
8 The periodic report shall contain the following information
9 for transactions occurring during the period for which the
10 report is provided:

11 “(1) The balance in the account.

12 “(2) The rate of return for the period covered.

13 “(3) The amount of authorized personal retire-
14 ment savings account contributions.

15 “(4) The amount of distributions.

16 “(5) The name and address of the trustee.

17 “(6) Commission fees and fees for administra-
18 tive expenses charged in connection with the ac-
19 count.

20 “(7) Other information which may be required
21 from time to time by the Board of Trustees.

22 The language of the report shall be written in a form so
23 as to be understood by the average participating indi-
24 vidual.

1 “(c) REPORTS TO BOARD OF TRUSTEES.—The
2 Board of Trustees may require the periodic report to be
3 filed with the Board at such time as the Board may speci-
4 fy in regulations under this section.

5 “(d) FAILURE BY TRUSTEE TO MAKE TIMELY PERI-
6 ODIC REPORTS.—

7 “(1) IN GENERAL.—The trustee of a personal
8 retirement savings account shall be subject to a civil
9 penalty of not to exceed \$100 a day from the date
10 of such trustee’s failure or refusal to furnish the
11 periodic report required to be furnished by the trust-
12 ee under this section until the date on which such
13 report is furnished.

14 “(2) PENALTIES ASSESSED BY BOARD OF
15 TRUSTEES.—Any civil penalty assessed by this sub-
16 section shall be imposed by the Board of Trustees
17 and collected in a civil action. The Board of Trust-
18 ees may compromise the amount of any civil penalty
19 imposed by this subsection. The Board of Trustees
20 may waive the application of this subsection with re-
21 spect to any failure if the Board of Trustees deter-
22 mines that such failure is due to reasonable cause
23 and not to intentional disregard of rules and regula-
24 tions.

25 “DEFINITIONS

26 “SEC. 254. For purposes of this title—

1 “(1) PERSONAL RETIREMENT SAVINGS AC-
2 COUNT.—The term ‘personal retirement savings ac-
3 count’ has the meaning provided in section 531 of
4 the Internal Revenue Code of 1986.

5 “(2) COVERED EMPLOYER.—The term ‘covered
6 employer’ means, for any calendar year, any person
7 on whom an excise tax is imposed under section
8 3111 of the Internal Revenue Code of 1986 with re-
9 spect to having an individual in his employ to whom
10 wages are paid by such person during such calendar
11 year.

12 “(3) PARTICIPATING INDIVIDUAL.—

13 “(A) IN GENERAL.—The term
14 ‘participating individual’ means any indi-
15 vidual—

16 “(i) with respect to whose employment
17 by a person who is covered employer for
18 any calendar year beginning after Decem-
19 ber 31, 2002, there is imposed an excise
20 tax under section 3111 of the Internal
21 Revenue Code of 1986, or

22 “(ii) on whose self-employment income
23 for a taxable year beginning after Decem-
24 ber 31, 2002, there is imposed a tax under

1 section 1401(a) of the Internal Revenue
2 Code of 1986,
3 and who has not filed an election for exemption
4 under subparagraph (B).

5 “(B) ELECTION FOR EXEMPTION.—

6 “(i) IN GENERAL.—An individual
7 may, prior to attaining retirement age (as
8 defined in section 216(l) and receiving any
9 distribution from a personal retirement
10 savings account, file with the Commis-
11 sioner of Social Security under this sub-
12 paragraph, in such form and manner as
13 shall be prescribed in regulations of the
14 Commissioner, a written form electing to
15 be exempted from the status of
16 ‘participating individual’ for purposes of
17 this part. Upon completion of the proce-
18 dures provided for under clause (ii), an in-
19 dividual who has filed such an election and
20 has not received a distribution from a per-
21 sonal retirement savings account shall not
22 be treated as a participating individual
23 under this part. Any such election shall be
24 irrevocable.

1 “(ii) PROCEDURE.—The Board of
2 Trustees shall prescribe by regulation pro-
3 cedures governing the termination of an in-
4 dividual’s status as ‘participating indi-
5 vidual’ pursuant to an election for exemp-
6 tion filed under this subparagraph. Such
7 procedures shall include—

8 “(I) prompt closing of all per-
9 sonal retirement savings accounts of
10 such individual and prompt transfer
11 to the Federal Old-Age and Survivors
12 Insurance Trust Fund and the Fed-
13 eral Disability Insurance Trust Fund
14 of the balance in such accounts, and

15 “(II) prompt transfer to such
16 Trust Funds of any amount credited
17 to such person in the Interim Invest-
18 ment Fund.

19 The Commissioner of Social Security shall
20 determine, in accordance with such regula-
21 tions, the allocation between such Trust
22 Funds of amounts transferred to such
23 Trust Funds pursuant to this clause.

1 “(4) BUSINESS DAY.—The term ‘business day’
2 means any day other than a Saturday, Sunday, or
3 legal holiday in the area involved.

4 “(5) BOARD OF TRUSTEES.—

5 “(A) IN GENERAL.—The term ‘Board of
6 Trustees’ means the Board of Trustees of the
7 Federal Old-Age and Survivors Insurance Trust
8 Fund and the Federal Disability Insurance
9 Trust Fund.

10 “(B) ROLE OF SECRETARY OF THE TREAS-
11 URY.—

12 “(i) IN GENERAL.—In connection with
13 the duties of the Board of Trustees under
14 this part, the Secretary of the Treasury
15 shall serve as Executive Director of the
16 Board of Trustees.

17 “(ii) STAFF.—Upon request of the
18 Board of Trustees, the Secretary may de-
19 tail, on a reimbursable basis, any of the
20 personnel of the Department of the Treas-
21 ury to the Board of Trustees to assist it in
22 carrying out its duties under this part.

23 “(iii) ADMINISTRATIVE SUPPORT.—
24 Upon the request of the Board, the Sec-
25 retary shall provide to the Board of Trust-

1 ees from the Department of the Treasury,
2 on a reimbursable basis, the administrative
3 support services necessary for the Board to
4 carry out its responsibilities under this
5 part.”.

6 (b) EFFECTIVE DATE AND NOTICE REQUIRE-
7 MENTS.—

8 (1) EFFECTIVE DATE.—The amendments made
9 by subsection (a) shall apply with respect to wages
10 paid after December 31, 2002, for pay periods end-
11 ing after such date and self-employment income for
12 taxable years beginning after such date.

13 (2) NOTICE REQUIREMENTS.—

14 (A) IN GENERAL.—Not later than October
15 1, 2002, the Commissioner of Social Security,
16 pursuant to direction by the Board of Trustees
17 of the Federal Old-Age and Survivors Insurance
18 Trust Fund and the Federal Disability Insur-
19 ance Trust Fund, shall—

20 (i) send to the last known address of
21 each eligible individual a description of the
22 program established by the amendments
23 made by this Act, which shall be written in
24 the form of a pamphlet in language which

1 may be readily understood by the average
2 worker,

3 (ii) provide for toll-free access by tele-
4 phone from all localities in the United
5 States to the Social Security Administra-
6 tion and for a site on the Internet through
7 which individuals may obtain information
8 and answers to questions regarding such
9 program, and

10 (iii) provide information to the media
11 in all localities of the United States about
12 such program, such toll-free access by tele-
13 phone, and such site on the Internet.

14 (B) ELIGIBLE INDIVIDUAL.—For purposes
15 of this paragraph, the term “eligible individual”
16 means an individual who, as of the date of the
17 pamphlet sent pursuant to subparagraph (A), is
18 indicated within the records of the Social Secu-
19 rity Administration as—

20 (i) not having attained age 65, and

21 (ii) being credited with one or more
22 quarters of coverage under section 213 of
23 the Social Security Act.

24 (C) MATTERS TO BE INCLUDED.—The
25 Commissioner of Social Security shall include

1 with the pamphlet sent to each eligible indi-
2 vidual pursuant to subparagraph (A)—

3 (i) a statement of the number of quar-
4 ters of coverage indicated in the records of
5 the Social Security Administration as of
6 the date of the description as credited to
7 such individual under section 213 of the
8 Social Security Act and the date as of
9 which such records may be considered ac-
10 curate, and

11 (ii) the number for toll-free access by
12 telephone established by the Commissioner
13 pursuant to subparagraph (A).

14 **SEC. 102. ADJUSTMENTS IN AMOUNTS APPROPRIATED TO**
15 **THE FEDERAL OLD-AGE AND SURVIVORS IN-**
16 **SURANCE TRUST FUND BASED ON RE-**
17 **ALLOCATION PERCENTAGE.**

18 (a) IN GENERAL.—Section 201 of the Social Security
19 Act (42 U.S.C. 401) is amended by adding at the end the
20 following new subsection:

21 “Reduction in Appropriations to Federal Old-Age and
22 Survivors Insurance Trust Fund Based on Realloca-
23 tion Percentage

24 “(n)(1) Under regulations prescribed by the Board
25 of Trustees of the Trust Funds (in consultation with the

1 Secretary of the Treasury) to carry out this subsection,
2 the amounts transferred from the general fund in the
3 Treasury to each Trust Fund under section 201 during
4 any calendar year shall be reduced by an amount equal
5 to the product derived by multiplying—

6 “(A) the total amount which would (but for this
7 subsection) be so transferred during such year, by

8 “(B) the reallocation percentage for such year.

9 “(2)(A) The Board of Trustees shall declare and pub-
10 lish in the Federal Register on or before July 1 of each
11 calendar year the reallocation percentage for amounts oth-
12 erwise transferrable to the Trust Funds under this section
13 during the next following calendar year.

14 “(B) For purposes of this subsection, the term
15 ‘reallocation percentage’ for amounts otherwise
16 transferrable during any calendar year means—

17 “(i) in the case of calendar years preceding
18 2026, 20.16 percent,

19 “(ii) in the case of calendar years following
20 2025 and preceding 2039, 22.18 percent, and

21 “(iii) in the case of each calendar year following
22 2038, the best estimate of the Board of Trustees of
23 the maximum percentage by which the amounts de-
24 scribed in subparagraph (A) for the calendar year
25 may be reduced so as to maintain a reserve in the

1 Trust Fund as of the end of such calendar year
2 equal to 15 percent of the amount of benefits pro-
3 jected to be paid from the Trust Fund during the
4 next calendar year, except that such percentage—

5 “(I) shall be adjusted as necessary for the
6 calendar year so as to avoid a reduction in the
7 percentage below the percentage in effect for
8 the preceding calendar year and to amortize
9 any substantially deviant annual increase over
10 the remaining calendar years ending with or
11 prior to 2038 to the extent necessary, in ac-
12 cordance with regulations of the Board of
13 Trustees, to avoid instability arising from such
14 annual increase, and

15 “(II) may not exceed for any year 64.52
16 percent.

17 In making the percentage for any year under clause (iii),
18 the Board of Trustees shall utilize the intermediate actu-
19 arial assumptions utilized by the Board of Trustees for
20 its most recent annual report issued under subsection
21 (c).”.

22 (b) RECOMMENDATIONS REGARDING REDUCTIONS IN
23 SOCIAL SECURITY TAXES.—In any case in which the
24 Board of Trustees of the Federal Old-Age and Survivors
25 Insurance Trust Fund and the Federal Disability Insur-

1 ance Trust Fund at any time estimates that the realloca-
 2 tion percentage (as defined in section 201(n)(2)(B)(i) of
 3 the Social Security Act for any of the next following 5
 4 calendar years will equal 64.52 percent, the Board of
 5 Trustees shall include within its next annual report to the
 6 Congress and the President its recommendations for re-
 7 ductions in taxes under chapters 2 and 21 of the Internal
 8 Revenue Code of 1986 so as to avoid unnecessary sur-
 9 pluses in such Trust Funds.

10 **SEC. 103. ADJUSTMENTS TO PRIMARY INSURANCE**
 11 **AMOUNTS UNDER PART A OF TITLE II OF THE**
 12 **SOCIAL SECURITY ACT.**

13 (a) IN GENERAL.—Section 215 of the Social Security
 14 Act (42 U.S.C. 415) is amended by adding at the end the
 15 following new subsection:

16 “Adjustment of Primary Insurance Amount in Relation
 17 to Deposits Made to Personal Retirement Savings
 18 Accounts

19 “(j)(1) Except as provided in paragraph (2), an indi-
 20 vidual’s primary insurance amount as determined in ac-
 21 cordance with this section (before adjustments made
 22 under subsection (i)) shall be equal to the excess (if any)
 23 of—

24 “(A) the amount which would be so determined
 25 without the application of this subsection, over

1 “(B) the applicable monthly amount determined
2 under clause (i), (ii), or (iii), which shall be deter-
3 mined as follows:

4 “(i) Except as provided in clauses (ii) and
5 (iii), the applicable monthly amount shall be the
6 initial monthly amount of an immediate joint
7 and survivor annuity, determined on the basis
8 of the total amount of the individual’s redi-
9 rected social security taxes (as defined in sec-
10 tion 252(a)(4)) for calendar years ending before
11 the date of the determination of the individual’s
12 primary insurance amount, plus 50 percent of
13 the amounts paid to designated accounts of the
14 individual for such calendar years under section
15 3511(d) of the Internal Revenue Code of 1986,
16 (indexed in the same manner as is applicable
17 with respect to average indexed monthly earn-
18 ings under subsection (b)).

19 “(ii) In the case of an individual who, as
20 of the first day of the first month for which
21 such primary insurance amount is determined,
22 is married, the applicable monthly amount shall
23 be the sum of—

24 “(I) $\frac{2}{3}$ of the initial monthly amount
25 of an immediate joint and survivor annu-

1 ity, determined on the basis of the total
2 amount of the individual’s redirected social
3 security taxes (as defined in section
4 252(a)(4)) for calendar years ending be-
5 fore the date of the determination of the
6 individual’s primary insurance amount,
7 plus 50 percent of the amounts paid to
8 designated accounts of the individual for
9 such calendar years under section 3511(d)
10 of the Internal Revenue Code of 1986,
11 (indexed in the same manner as is applica-
12 ble with respect to average indexed month-
13 ly earnings under subsection (b)); plus

14 “(II) $\frac{1}{3}$ of the initial monthly amount
15 of an immediate joint and survivor annu-
16 ity, determined on the basis of the total
17 amount of the redirected social security
18 taxes (as defined in section 252(a)(4)) of
19 such individual’s spouse for calendar years
20 ending before the date of the determina-
21 tion of the individual’s primary insurance
22 amount, plus 50 percent of the amounts
23 paid to designated accounts of the individ-
24 ual’s spouse for such calendar years under
25 section 3511(d) of such Code, (indexed in

1 the same manner as is applicable with re-
2 spect to average indexed monthly earnings
3 under subsection (b)).

4 “(iii) In the case of an individual who, as
5 of the first day of the first month for which
6 such primary insurance amount is determined,
7 is divorced (and has not remarried since such
8 divorce), the sum of—

9 “(I) $\frac{1}{2}$ of the initial monthly amount
10 of an immediate joint and survivor annu-
11 ity, determined on the basis of the total
12 amount of such individual’s redirected so-
13 cial security taxes (as defined in section
14 252(a)(4)) for calendar years ending be-
15 fore the date of the determination of the
16 individual’s primary insurance amount,
17 plus 50 percent of the amounts paid to
18 designated accounts of the individual for
19 such calendar years under section 3511(d)
20 of the Internal Revenue Code of 1986,
21 (indexed in the same manner as is applica-
22 ble with respect to average indexed month-
23 ly earnings under subsection (b)); plus

24 “(II) $\frac{1}{2}$ of the initial monthly amount
25 of an immediate joint and survivor annu-

1 ity, determined on the basis of the total
2 amount of the redirected social security
3 taxes (as defined in section 252(a)(4)) of
4 the individual's former spouse in connec-
5 tion with such divorce for calendar years
6 ending before the date of the determina-
7 tion of the individual's primary insurance
8 amount, plus 50 percent of the amounts
9 paid to designated accounts of such former
10 spouse for such calendar years under sec-
11 tion 3511(d) of such Code, (indexed in the
12 same manner as is applicable with respect
13 to average indexed monthly earnings under
14 subsection (b)).

15 “(2) In making determinations under this subsection,
16 the Commissioner shall employ the intermediate assump-
17 tions used by the Board of Trustees of the Federal Old-
18 Age and Survivors Insurance Trust Fund and the Federal
19 Disability Insurance Trust Fund in its most recent annual
20 report, including mortality tables consistent with such as-
21 sumptions, except that the Commissioner shall assume an
22 interest rate equal to the sum of the projected average
23 market yield (as assumed by the Commissioner) on all
24 marketable interest-bearing obligations of the United
25 States forming a part of the public debt which are not

1 due or callable until after the expiration of 4 years, plus
2 0.7 percent.

3 “(3) In the case of an individual described in para-
4 graph (1) who becomes entitled to disability insurance
5 benefits under section 223, such individual’s primary in-
6 surance amount shall be determined without regard to
7 paragraph (1).

8 “(4) For purposes of this subsection—

9 “(A) The term ‘immediate joint and survivor
10 annuity’ means an annuity—

11 “(i) the annuity starting date (as defined
12 in section 72(c)(4) of the Internal Revenue
13 Code of 1986) of which commences with the
14 first month following the date of the determina-
15 tion,

16 “(ii) which provides for a series of substan-
17 tially equal monthly payments over the life ex-
18 pectancy of the individual described in para-
19 graph (1), subject to annual percentage adjust-
20 ments equal to the annual percentage adjust-
21 ments taking effect under subsection (i),

22 “(iii) which provides for a survivor annuity
23 for such individual’s spouse in the form of a se-
24 ries of substantially equal monthly payments
25 over the life expectancy of such spouse, the ini-

1 tial monthly payment of which is equal to the
2 amount of the last monthly payment payable
3 during the joint lives of such individual and
4 such spouse, subject to annual percentage ad-
5 justments equal to the annual percentage ad-
6 justments taking effect under subsection (i),
7 and

8 “(iv) which is the actuarial equivalent of
9 an immediate life annuity for the life of such
10 individual.

11 “(B) The term ‘immediate life annuity’ means
12 an annuity—

13 “(i) the annuity starting date (as defined
14 in section 72(c)(4) of the Internal Revenue
15 Code of 1986) of which commences with the
16 first month following the date of the determina-
17 tion, and

18 “(ii) which provides for a series of substan-
19 tially equal monthly payments over the life ex-
20 pectancy of the individual described in para-
21 graph (1), subject to annual percentage adjust-
22 ments equal to the annual percentage adjust-
23 ments taking effect under subsection (i).”.

24 (b) CONFORMING AMENDMENT TO RAILROAD RE-
25 TIREMENT ACT OF 1974.—Section 1 of the Railroad Re-

1 tirement Act of 1974 (45 U.S.C. 231) is amended by add-
 2 ing at the end the following:

3 “(s) In applying applicable provisions of the Social
 4 Security Act for purposes of determining the amount of
 5 the annuity to which an individual is entitled under this
 6 Act, section 215(j) of the Social Security Act and part
 7 B of title II of such Act shall be disregarded.”

8 (c) EFFECTIVE DATE.—The amendments made by
 9 this section shall apply with respect to computations and
 10 recomputations of primary insurance amounts occurring
 11 after December 31, 2002.

12 **SEC. 104. PERSONAL RETIREMENT SAVINGS ACCOUNTS.**

13 (a) DEDUCTION FOR CONTRIBUTIONS BY TAX-
 14 PAYER.—Part VII of subchapter B of chapter 1 of the
 15 Internal Revenue Code of 1986 (relating to additional
 16 itemized deductions) is amended by redesignating section
 17 223 as section 224 and by inserting after section 222 the
 18 following new section:

19 **“SEC. 223. CONTRIBUTIONS TO PERSONAL RETIREMENT**
 20 **SAVINGS ACCOUNTS.**

21 “(a) IN GENERAL.—In the case of an individual who
 22 is an electing personal retirement savings account partici-
 23 pant for the taxable year, there shall be allowed as a de-
 24 duction an amount equal to 50 percent of the amount con-
 25 tributed during such taxable year by such individual to

1 a personal retirement savings account maintained for the
2 benefit of such individual.

3 “(b) LIMITATION.—The amount of contributions
4 which may be taken into account under subsection (a)
5 shall not exceed \$2,000.

6 “(c) ELECTING PERSONAL RETIREMENT SAVINGS
7 ACCOUNT PARTICIPANT.—An individual is an electing
8 personal retirement savings account participant for any
9 taxable year if any amount is deposited under section
10 251(b) of the Social Security Act for such taxable year
11 to a personal retirement savings account maintained for
12 the benefit of such individual.

13 “(d) SPECIAL RULES.—

14 “(1) NO DEDUCTION FOR TRUSTEE-TO-TRUST-
15 EE TRANSFERS.—No deduction shall be allowed for
16 amounts transferred to an account in a rollover con-
17 tribution described in section 531(b)(2).

18 “(2) TIME WHEN CONTRIBUTIONS DEEMED
19 MADE.—For purposes of this section, a taxpayer
20 shall be deemed to have made a contribution to a
21 personal retirement savings account on the last day
22 of the preceding taxable year if the contribution is
23 made on account of such taxable year and is made
24 not later than the time prescribed by law for filing

1 the return for such taxable year (not including ex-
2 tensions thereof).”

3 (b) **PERSONAL RETIREMENT SAVINGS ACCOUNTS.**—
4 Subchapter F of chapter 1 of such Code (relating to ex-
5 empt organizations) is amended by adding at the end the
6 following new part:

7 **“PART IX—PERSONAL RETIREMENT SAVINGS**
8 **ACCOUNTS**

“Sec. 531. Personal retirement savings accounts.

9 **“SEC. 531. PERSONAL RETIREMENT SAVINGS ACCOUNTS.**

10 “(a) **GENERAL RULE.**—Gross income shall not in-
11 clude any amount deposited in a personal retirement sav-
12 ings account under section 251(b) of the Social Security
13 Act.

14 “(b) **PERSONAL RETIREMENT SAVINGS ACCOUNT.**—

15 “(1) **IN GENERAL.**—For purposes of this title,
16 the term ‘personal retirement savings account’
17 means a trust created or organized in the United
18 States for the exclusive benefit of an individual or
19 his beneficiaries, but only if the written governing
20 instrument creating the trust meets the following re-
21 quirements:

22 “(A) No contribution will be accepted
23 other than—

1 “(i) deposits under section 251(b) of
2 the Social Security Act,

3 “(ii) amounts paid under section
4 3511(d),

5 “(iii) contributions made in cash, ex-
6 cept that contributions under this subpara-
7 graph may not be accepted for any taxable
8 year in excess of \$2,000, and

9 “(iv) a contribution which is a rollover
10 contribution described in paragraph (2).

11 “(B) Except as provided in paragraph (3)
12 and subsection (f)(2), no amount may be paid
13 or distributed from such trust—

14 “(i) before the date on which the ac-
15 count holder attains age 59½ or dies, or

16 “(ii) in a manner not meeting the re-
17 quirements of subsection (d).

18 “(C) The trustee of which is a regulated
19 investment company (as defined in section 851)
20 which is approved by the Secretary for purposes
21 of this section.

22 “(D) The interest of an individual in the
23 balance in his account is nonforfeitable.

24 “(3) TRANSFER PURSUANT TO ELECTION FOR
25 EXEMPTION.—If the account holder makes an elec-

1 tion of exemption under section 254(3)(B) of the So-
2 cial Security Act, so much of the amounts in the
3 personal retirement savings account as are attrib-
4 utable to contributions under section 251(b) of such
5 Act, and payments under section 3511(d), and earn-
6 ings thereon, shall be paid to the Federal Old-Age
7 and Survivors Insurance Trust Fund and the Fed-
8 eral Disability Insurance Trust Fund in accordance
9 with the regulations under such section 254(3)(B).

10 “(2) ROLLOVER CONTRIBUTIONS.—For pur-
11 poses of paragraph (1)(A), a rollover contribution is
12 described in this paragraph if such contribution is—

13 “(A) a direct trustee-to-trustee transfer de-
14 scribed in subsection (f)(2), or

15 “(B) a transfer from an eligible retirement
16 plan (as defined in section 402(c)(8)) to the
17 personal retirement savings account if no
18 amount is includible in gross income by reason
19 of such transfer, determined by treating such
20 account as the same type of plan as the plan
21 from which such transfer were made.

22 “(c) INVESTMENT REQUIREMENTS.—

23 “(1) IN GENERAL.—Amounts in a personal re-
24 tirement savings account may be invested only in
25 regulated investment companies (as defined in sec-

1 tion 851) which are approved by the Secretary for
2 purposes of this section.

3 “(2) CRITERIA FOR SECRETARIAL APPROVAL.—

4 The Secretary may approve a regulated investment
5 company for purposes of this section only if—

6 “(A) an election is in effect under section
7 851(b)(1) for such company, and

8 “(B) the portfolio assets of such com-
9 pany—

10 “(i) replicate the assets of a broad-
11 based index of stocks which is approved by
12 the Secretary, or

13 “(ii) are of a type determined by the
14 Secretary not to involve high risks for the
15 investor.

16 “(3) DIVERSIFICATION REQUIRED.—To the ex-
17 tent possible, the Secretary shall approve under sub-
18 paragraph (B)(i) funds in each of the following 4
19 categories: domestic stocks, domestic bonds, stocks
20 of companies having small capitalization, and foreign
21 stocks. Nothing in this subsection shall be construed
22 to preclude the use of managed funds devised so as
23 to minimize risk.

24 “(4) CONSIDERATION OF MANAGEMENT
25 COSTS.—The Secretary shall take into account man-

1 agement costs in determining whether to approve a
2 company for purposes of this section.

3 “(d) DISTRIBUTION REQUIREMENTS.—

4 “(1) IN GENERAL.—The requirements of this
5 subsection are met with respect to distributions from
6 a personal retirement savings account (other than
7 reasonable administrative fees meeting such require-
8 ments as may be prescribed in regulations of the
9 Secretary) only if such distributions are in accord-
10 ance with a payment option under paragraph (2).
11 The preceding sentence shall not apply to direct
12 trustee-to-trustee transfers described in subsection
13 (f)(2) or distributions to a deceased account holder’s
14 estate under section 251(c) of the Social Security
15 Act.

16 “(2) PAYMENT OPTIONS.—The payment options
17 under this paragraph are the following:

18 “(A) LIFETIME OPTION.—Distributions in
19 equal annual or more frequent periodic install-
20 ments payable to the account holder in equal
21 annual or more frequent periodic installments
22 over the life of the account holder. The trustee
23 of the account shall be liable under the terms
24 of the account to the account holder for the
25 timely payment of such periodic payments.

1 “(B) NONLIFETIME OPTION.—

2 “(i) IN GENERAL.—Distributions in
3 equal annual or more frequent periodic in-
4 stallments of interest only, or of interest
5 and principal. Any such payment of equal
6 installments shall continue until—

7 “(I) payment ceases at the direc-
8 tion of the account holder to the
9 trustee,

10 “(II) payment continues in ac-
11 cordance with this subparagraph but
12 at an adjusted level at the direction of
13 the account holder to the trustee, or

14 “(III) the distribution converts to
15 an option described in subparagraph
16 (A) at the direction of the account
17 holder to the trustee.

18 “(ii) LIMITATIONS.—Payments from
19 the account under a distribution described
20 in clause (i) shall be limited as of any date
21 to the extent necessary to ensure that
22 funds in the account are sufficient at all
23 times to provide a monthly payment over
24 the life expectancy of the account holder
25 (determined under reasonable actuarial as-

1 sumptions) which, when added to the ac-
2 count holder's monthly benefit under part
3 A (if any), is at least equal to an amount
4 equal to $\frac{1}{12}$ of the poverty line (as deter-
5 mined under section 673(2) of the Commu-
6 nity Services Block Grant Act (42 U.S.C.
7 9902(2)) and determined on such date for
8 a family of the size involved).

9 “(C) ADDITIONAL OPTIONS.—Distributions
10 in any other manner permitted under regula-
11 tions prescribed by the Secretary.

12 “(e) ACCOUNT EXEMPT FROM TAX.—

13 “(1) GENERAL RULE.—Any personal retirement
14 savings account is exempt from taxation under this
15 subtitle. Notwithstanding the preceding sentence,
16 any such account is subject to the taxes imposed by
17 section 511 (relating to imposition of tax on unre-
18 lated business income of charitable, etc. organiza-
19 tions).

20 “(2) APPLICATION OF PROHIBITED TRANS-
21 ACTIONS RULES, ETC.—Rules similar to the rules of
22 paragraphs (2), (3), and (4) of section 408(e) shall
23 apply to personal retirement savings accounts.

24 “(f) DISTRIBUTIONS TAXED AS IF SOCIAL SECURITY
25 BENEFITS.—

1 “(1) GENERAL RULE.—Amounts paid or dis-
2 tributed from a personal retirement savings account
3 shall be includible in gross income only if so includ-
4 ible under section 86, determined by treating such
5 amounts as social security benefits (as defined in
6 such section).

7 “(2) TRUSTEE-TO-TRUSTEE TRANSFERS.—No
8 amount shall be includible in gross income by reason
9 of a direct trustee-to-trustee transfer between per-
10 sonal retirement savings accounts of the same indi-
11 vidual.

12 “(3) RETURN OF EXCESS CONTRIBUTIONS.—
13 Paragraph (1) shall not apply to the distribution of
14 any contribution (other than a deposit made under
15 section 251(b) of the Social Security Act) made dur-
16 ing a taxable year to the extent that such contribu-
17 tion exceeds the dollar amount specified in sub-
18 section (b)(1)(B) if—

19 “(A) such distribution is received on or be-
20 fore the last day prescribed by law (including
21 extensions) for filing such individual’s return
22 for such taxable year,

23 “(B) such contribution is not taken into
24 account in determining the deduction allowed
25 under section 223, and

1 “(C) such distribution is accompanied by
2 the amount of net income attributable to such
3 contribution.

4 Any net income described in subparagraph (C) shall
5 be included in gross income for the taxable year in
6 which such contribution is made.

7 “(g) CERTAIN OTHER RULES TO APPLY.—The fol-
8 lowing rules shall apply to personal retirement savings ac-
9 counts in the same manner that such rules apply to indi-
10 vidual retirement accounts:

11 “(1) Section 408(h) (relating to custodial ac-
12 counts).

13 “(2) Section 408(i) (relating to reports).

14 “(h) TREATMENT AFTER DEATH OF ACCOUNT
15 HOLDER.—A personal retirement savings account shall
16 cease to be such on the date of the account holder’s death,
17 but no amount shall be includible in gross income by rea-
18 son of such cessation.”

19 “(c) DEDUCTION ALLOWED WHETHER OR NOT TAX-
20 PAYER ITEMIZES OTHER DEDUCTIONS.—Subsection (a)
21 of section 62 of such Code is amended by inserting after
22 paragraph (18) the following new paragraph:

23 “(19) PERSONAL RETIREMENT SAVINGS AC-
24 COUNTS.—The deduction allowed by section 223.”

25 “(d) TAX ON EXCESS CONTRIBUTIONS.—

1 (1) IN GENERAL.—Subsection (a) of section
2 4973 of such Code is amended by striking “or” at
3 the end of paragraph (3), by adding “or” at the end
4 of paragraph (4), and by inserting after paragraph
5 (4) the following new paragraph:

6 “(5) a personal retirement savings account (as
7 defined in section 531),”.

8 (2) EXCESS CONTRIBUTION DEFINED.—Section
9 4973 of such Code is amended by adding at the end
10 the following new subsection:

11 “(g) EXCESS CONTRIBUTIONS TO PERSONAL RE-
12 TIREMENT SAVINGS ACCOUNTS.—For purposes of this
13 section—

14 “(1) IN GENERAL.—In the case of personal re-
15 tirement savings accounts maintained for the benefit
16 of any 1 beneficiary, the term ‘excess contributions’
17 means the amount by which the amount contributed
18 for the taxable year to such accounts exceeds
19 \$2,000.

20 “(2) SPECIAL RULES.—For purposes of para-
21 graph (1), the following contributions shall not be
22 taken into account:

23 “(A) Any contributions under section
24 251(b) of the Social Security Act.

25 “(B) Any trustee-to-trustee transfer.”

1 (e) CONFORMING AMENDMENTS.—

2 (1) Paragraph (1) of section 4975(e) of such
3 Code (relating to tax on prohibited transactions) is
4 amended by redesignating subparagraph (F) as sub-
5 paragraph (G), by striking “or” at the end of sub-
6 paragraph (E), and by inserting after subparagraph
7 (E) the following new subparagraph:

8 “(F) a personal retirement savings account
9 described in section 531(b), or”.

10 (2) Paragraph (2) of section 6693(a) of such
11 Code (relating to failure to provide reports on cer-
12 tain tax favored accounts or annuities) is amended
13 by redesignating subparagraphs (C) and (D) as sub-
14 paragraphs (D) and (E), respectively, and by insert-
15 ing after subparagraph (B) the following new sub-
16 paragraph:

17 “(C) section 531(g)(2) (relating to per-
18 sonal retirement savings accounts),”.

19 (f) CLERICAL AMENDMENTS.—

20 (1) The table of sections for part VII of sub-
21 chapter B of chapter 1 of such Code is amended by
22 striking the last item and inserting the following
23 new items:

“Sec. 223. Contributions to personal retirement savings accounts.
“Sec. 224. Cross reference.”

1 (2) The table of parts for subchapter F of
 2 chapter 1 of such Code is amended by adding after
 3 the item relating to part VIII the following new
 4 item:

“PART IX—PERSONAL RETIREMENT SAVINGS ACCOUNTS.”.

5 (g) EFFECTIVE DATE.—The amendments made by
 6 this section shall apply to taxable years beginning after
 7 December 31, 2002.

8 **SEC. 105. INDIVIDUAL RETIREMENT SECURITY PROGRAM**
 9 **REFUNDABLE CREDIT.**

10 (a) IN GENERAL.—Chapter 25 of the Internal Rev-
 11 enue Code of 1986 (relating to general provisions relating
 12 to employment taxes) is amended by adding at the end
 13 the following new section:

14 **“SEC. 3511. INDIVIDUAL RETIREMENT SECURITY PROGRAM**
 15 **REFUNDABLE CREDIT.**

16 “(a) IN GENERAL.—The designated account of each
 17 participating individual shall receive for each calendar
 18 year the lesser of—

19 “(1) the credit amount, or

20 “(2) the amount of compensation includible in
 21 the such individual’s gross income for such year.

22 “(b) CREDIT AMOUNT.—

23 “(1) IN GENERAL.—For purposes of subsection
 24 (a), the term ‘credit amount’ means—

1 “(A) \$300 in the case of modified adjusted
2 gross income for the taxable year greater than
3 \$5,000 but less than or equal to \$25,000,

4 “(B) \$150 in the case of modified adjusted
5 gross income for the taxable year greater than
6 \$25,000 but less than or equal to \$35,000, and

7 “(C) zero in any other case.

8 “(2) MODIFIED ADJUSTED GROSS INCOME.—
9 For purposes of paragraph (1), the term ‘modified
10 adjusted gross income’ means adjusted gross income
11 determined without regard to sections 911, 931, and
12 933.

13 “(c) COMPENSATION.—For purposes of subsection
14 (a), the term ‘compensation’ means with respect to an in-
15 dividual—

16 “(1) wages (as defined in section 3121(a)) re-
17 ceived by such individual during such year on which
18 tax is imposed by section 3101, and

19 “(2) self-employment income (as defined in
20 1402(b)) of such individual for the taxable year of
21 such individual ending in such calendar year on
22 which tax is imposed by section 1401.

23 “(d) PAYMENT TO DESIGNATED ACCOUNT.—Not-
24 withstanding any other provision of this title, the Sec-
25 retary, as soon as practicable, shall transfer from amounts

1 otherwise available in the general fund of the Treasury,
2 amounts equal to the amount required to be paid under
3 subsection (a) to the designated account of each partici-
4 pating individual in accordance with regulations which the
5 Secretary shall prescribe to carry out this section.

6 “(e) OTHER DEFINITIONS AND SPECIAL RULE.—For
7 purposes of this section—

8 “(1) DESIGNATED ACCOUNT.—The term
9 ‘designated account’ means the separate account in
10 the Interim Investment Fund provided for under
11 section 252 of the Social Security Act or, in lieu
12 thereof, the personal retirement savings account of
13 the participating individual designated under section
14 251 of the Social Security Act.

15 “(2) PARTICIPATING INDIVIDUAL.—The term
16 ‘participating individual’ shall have the meaning
17 given to such term by section 254 of the Social Se-
18 curity Act.

19 “(3) SPECIAL RULE RELATING TO AGREE-
20 MENTS BY AMERICAN EMPLOYERS OF FOREIGN AF-
21 FILIATES.—Any amounts paid pursuant to an agree-
22 ment under section 3121(l) (relating to agreements
23 entered into by American employers with respect to
24 foreign affiliates) which are equivalent to the taxes

1 referred to in subsection (b)(1)(A) shall be treated
2 as taxes referred to in such subsection.”.

3 (b) CONFORMING AMENDMENT.—The table of sec-
4 tions for chapter 25 of such Code is amended by adding
5 at the end the following new item:

“Sec. 3511. Individual retirement security program refundable
credit.”.

6 (c) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to remuneration received, and net
8 earnings for self-employment for services performed, after
9 December 31, 2002.

10 **TITLE II—SOCIAL SECURITY**

11 **SURPLUS PROTECTION**

12 **SEC. 201. TRANSFERS OF BUDGET SURPLUSES TO FEDERAL**

13 **OLD-AGE AND SURVIVORS INSURANCE TRUST**

14 **FUND.**

15 Section 201 of the Social Security Act (as amended
16 by the preceding provisions of this Act) is amended further
17 by adding at the end the following new subsection:

18 “Transfers of Budget Surpluses to the Trust Funds

19 “(o)(1) In addition to the amounts otherwise appro-
20 priated to the Federal Old-Age and Survivors Insurance
21 Trust Fund and the Federal Disability Insurance Trust
22 Fund for each fiscal year after fiscal year 2004 and before
23 fiscal year 2012, there is hereby appropriated to such
24 Trust Funds for each such fiscal year the applicable

1 amount for such fiscal year. Amounts appropriated to
 2 such Trust Funds under this paragraph shall be distrib-
 3 uted between the Trust Funds for any fiscal year in the
 4 same proportion as amounts are appropriated to such
 5 Trust Funds under subsections (a) and (b). The amounts
 6 appropriated by this paragraph shall be transferred from
 7 time to time during the fiscal year from the general fund
 8 in the Treasury to the Trust Funds, such amounts to be
 9 determined on the basis of estimates by the Secretary of
 10 the Treasury, and proper adjustments shall be made in
 11 amounts subsequently transferred to the extent prior esti-
 12 mates were in excess of or were less than the actual
 13 amounts. All amounts transferred to each Trust Fund
 14 under this paragraph shall be invested by the Managing
 15 Trustee in the same manner and to the same extent as
 16 the other assets of such Trust Fund.

17 “(2) For purposes of paragraph (1), the applicable
 18 amount for any fiscal year is the amount set forth in the
 19 following table:

In the case of fiscal year—	The amount is—
2005	\$21 billion
2006	\$47 billion
2007	\$78 billion
2008	\$106 billion
2009	\$147 billion
2010	\$184 billion
2011	\$283 billion.

20 “(3)(A) Subject to subparagraph (B), in any case in
 21 which the reallocation percentage (as defined in subsection

1 (n)(2)(B)(i)) for any calendar year after 2016 of the best
2 estimate of the Board of Trustees of the amounts other-
3 wise transferrable during such calendar year to the Fed-
4 eral Old-Age and Survivors Insurance Trust Fund and the
5 Federal Disability Insurance Trust Fund under subsection
6 (a) exceeds 5 percent of the social security payroll for such
7 calendar year, the Secretary of the Treasury shall transfer
8 during such calendar year, from such Trust Funds to the
9 general fund of the Treasury, amounts equivalent to 100
10 percent of the excess of—

11 “(i) the projected amount of the allowable
12 Trust Funds cushion reduction for such calendar
13 year, over

14 “(ii) 5 percent of the projected social security
15 payroll for such fiscal year.

16 The amounts to be transferred from the Trust Funds for
17 any calendar year shall be allocated between the Trust
18 Funds in proportion to the amounts transferred to the
19 Trust Funds during such calendar year under subsection
20 (a). The amounts appropriated by this paragraph shall be
21 transferred from time to time during each fiscal year from
22 the Trust Funds to the general fund in the Treasury, such
23 amounts to be determined on the basis of estimates by
24 the Secretary of the Treasury, and proper adjustments
25 shall be made in amounts subsequently transferred to the

1 extent prior estimates were in excess of or were less than
2 the actual amounts.

3 “(B) In any case in which the transfer of any amount
4 to the general fund of the Treasury from either Trust
5 Fund pursuant to subparagraph (A) for any calendar year
6 would (but for this subparagraph) cause—

7 “(i) the total amount transferred from such
8 Trust Fund pursuant to subparagraph (A)
9 (including accrued net earnings thereon) to exceed

10 “(ii) the total amount transferred to such Trust
11 Fund pursuant to paragraph (1) (including accrued
12 net earnings thereon),

13 the amount of such transfer shall be limited to the extent
14 necessary to ensure that the total amount described in
15 clause (ii) does not exceed the total amount described in
16 clause (i), and this paragraph shall not be effective for
17 subsequent calendar years in connection with such Trust
18 Fund.

19 “(4) For purposes of this subsection—

20 “(A) The term ‘social security payroll’ for any
21 fiscal year means the sum of the wages (as defined
22 in section 3121 of the Internal Revenue Code of
23 1986) reported to the Secretary of the Treasury or
24 his delegate during such fiscal year pursuant to sub-
25 title F of such Code and the self-employment income

1 (as defined in section 1402 of such Code) reported
2 to the Secretary of the Treasury or his delegate dur-
3 ing such fiscal year pursuant to subtitle F of such
4 Code.

5 “(B) The term ‘allowable Trust Fund cushion
6 reduction’ for a fiscal year means the amount by
7 which the amounts otherwise appropriated for the
8 fiscal year to the Federal Old-Age and Survivors In-
9 surance Trust Fund under paragraphs (3) and (4)
10 of subsection (a) may be reduced so as to maintain
11 a reserve in the Federal Old-Age and Survivors In-
12 surance Trust Fund as of the end of such fiscal year
13 equal to 50 percent of the amount of benefits pro-
14 jected to be paid from the Trust Fund during such
15 fiscal year.”.

16 **TITLE III—SOCIAL SECURITY**

17 **BENEFIT REFORMS**

18 **SEC. 301. GRADUAL INCREASE IN RETIREMENT AGE AND** 19 **EARLY RETIREMENT AGE.**

20 (a) **NORMAL RETIREMENT AGE.**—Section 216(l) of
21 the Social Security Act (42 U.S.C. 416(l) is amended—

22 (1) in paragraph (1), by striking subparagraphs
23 (A), (B), (C), (D), and (E) and inserting the fol-
24 lowing:

1 “(A) with respect to an individual who at-
2 tains age 62 (or in the case of a widow’s or
3 widower’s insurance benefit, age 60) before
4 January 1, 2000, 65 years of age;

5 “(B) with respect to an individual who at-
6 tains age 62 (or in the case of a widow’s or
7 widower’s insurance benefit, age 60) after De-
8 cember 31, 1999 and before January 1, 2011,
9 65 years of age plus $\frac{2}{12}$ of the number of
10 months in the period beginning with January
11 2000 and ending with December of the year in
12 which the individual attains age 62 (or in the
13 case of a widow’s or widower’s insurance ben-
14 efit, age 60);

15 “(C) with respect to an individual who at-
16 tains age 62 (or in the case of a widow’s or
17 widower’s insurance benefit, age 60) after De-
18 cember 31, 2010, and before January 1, 2012,
19 67 years of age; and

20 “(D) with respect to an individual who at-
21 tains age 62 (or in the case of a widow’s or
22 widower’s insurance benefit, age 60) after De-
23 cember 31, 2011, 67 years of age plus $\frac{1}{24}$ of
24 the number of months in the period beginning
25 with January 2012 and ending with December

1 of the year in which the individual attains age
 2 62 (rounded down to a full month).”; and
 3 (2) by striking paragraph (3).

4 **SEC. 302. ADJUSTMENTS TO BEND POINTS IN DETER-**
 5 **MINING PRIMARY INSURANCE AMOUNTS.**

6 (a) **ADDITIONAL BEND POINT.**—Section
 7 215(a)(1)(A) of the Social Security Act (42 U.S.C.
 8 415(a)(1)(A)) is amended—

9 (1) in clause (ii), by striking “and” at the end;
 10 (2) in clause (iii), by striking “clause (ii),” and
 11 inserting the following: “clause (ii) but do not exceed
 12 the amount established for purposes of this clause
 13 by subparagraph (B), and”; and

14 (3) by inserting after clause (iii) the following
 15 new clause:

16 “(iv) the applicable percentage of the individ-
 17 ual’s average indexed monthly earnings to the extent
 18 that such earnings exceed the amount established
 19 for purposes of clause (iii), determined, in connec-
 20 tion with the calendar year in which the individual
 21 initially becomes eligible for old-age or disability in-
 22 surance benefits, or dies (before becoming eligible
 23 for such benefits), in accordance with the following
 24 table:

“Calendar year:	Applicable Percentage:
2003	13 percent
2004	11 percent

“Calendar year:	Applicable Percentage:
2005	9 percent
2006	7 percent
After 2006	5 percent.”.

1 (b) INITIAL LEVEL OF ADDITIONAL BEND POINT.—
2 Section 215(a)(1)(B)(i) of such Act (42 U.S.C.
3 415(a)(1)(B)(i)) is amended by adding at the end the fol-
4 lowing new sentence: “For individuals who initially become
5 eligible for old-age or disability insurance benefits, or who
6 die (before becoming eligible for such benefit), in the cal-
7 endar year 2002, the amount established for purposes of
8 clause (iii) of subparagraph (A) shall be \$3,720.”.

9 (c) ANNUAL ADJUSTMENTS TO PIA FORMULA.—

10 (1) IN GENERAL.—Section 215(a)(1)(B) of
11 such Act (42 U.S.C. 415(a)(1)(B)) is amended fur-
12 ther—

13 (A) by redesignating clause (iii) as clause
14 (ix);

15 (B) in clause (ii), by inserting “for pur-
16 poses of clauses (i) and (ii) of subparagraph
17 (A)” after “each of the amounts so estab-
18 lished”;

19 (C) by inserting after clause (ii) the fol-
20 lowing new clauses:

21 “(iii) For individuals who initially become eligible for
22 old-age or disability insurance benefits, or who die (before
23 becoming eligible for such benefits), in any calendar year

1 after 2002, the amount established under clause (i) for
2 purposes of clause (iii) of subparagraph (A) shall equal
3 the product of the corresponding amount established with
4 respect to the calendar year 2002 under clause (i) of this
5 subparagraph and the quotient obtained by dividing—

6 “(I) the national average wage index (as de-
7 fined in section 209(k)(1)) for the second calendar
8 year preceeding the calendar year for which the de-
9 termination is made, by

10 “(II) the national average wage index (as so de-
11 fined) for 2000.

12 “(iv) For individuals who initially become eligible for
13 old-age or disability insurance benefits, or who die (before
14 becoming eligible for such benefits), in any calendar year
15 after 2002, effective for such calendar year—

16 “(I) the percentage in effect under clause (ii) of
17 subparagraph (A) shall be equal to the product de-
18 rived by multiplying the percentage in effect under
19 such clause for the preceding calendar year by 0.98,
20 and

21 “(II) the percentage in effect under clause (iii)
22 of subparagraph (A) shall be equal to the product
23 derived by multiplying the percentage in effect under
24 such clause for the preceding calendar year by
25 0.975.

1 “(v) For individuals who initially become eligible for
2 old-age or disability insurance benefits, or who die (before
3 becoming eligible for such benefits), in any calendar year
4 after 2007, effective for such calendar year, the percent-
5 age in effect under clause (iv) of subparagraph (A) shall
6 be equal to the product derived by multiplying the percent-
7 age in effect under such clause for the preceding calendar
8 year by 0.975.

9 “(vi)(I) Subject to section 201(p), in the case of an
10 individual who is entitled to disability insurance benefits
11 and to whom this clause applies, this subparagraph shall
12 apply as if the amendments made by the Social Security
13 Solvency Act of 2002 had not been enacted.

14 “(II) This clause applies to any individual who first
15 becomes eligible for such benefits in 2002, and whose aver-
16 age indexed monthly earnings (determined under sub-
17 section (b)) do not exceed the amount established for pur-
18 poses of this subclause by clause (vii).

19 “(III) This clause also applies to any individual who
20 first becomes eligible for such benefits in any year after
21 2002, and whose average indexed monthly earnings
22 (determined under subsection (b)) do not exceed the dollar
23 amount referred to in subclause (II), after applying
24 clauses (ii) and (ii) of subsection (a)(1)(B) to such dollar
25 amount, in connection with such year, in the same manner

1 and to the same extent as they apply to dollar amounts
2 in subsection (a)(1)(B)(i), except that, for purposes of this
3 subclause, the references in such clauses to 1979 and
4 1977 shall be deemed to be references to 2002 and 2000,
5 respectively.

6 “(vii) For individuals who initially become eligible for
7 disability insurance benefits in calendar year 2002, the
8 amount established for purposes of subclause (II) of clause
9 (vi) shall be \$1,666²/₃. For individuals who initially be-
10 come eligible for disability insurance benefits in any cal-
11 endar year after 2002, the dollar amount so established
12 shall equal the product of \$1,666²/₃ and the quotient ob-
13 tained by dividing—

14 “(I) the national average wage index (as de-
15 fined in section 209(k)(1)) for the second calendar
16 year preceeding the calendar year for which the de-
17 termination is made, by

18 “(II) the national average wage index (as so de-
19 fined) for 2000.

20 “(viii) Subject to section 201(p), in the case of an
21 individual who is entitled to disability insurance benefits,
22 who first becomes eligible for such benefits in any year
23 after 2001, and to whom clause (vi) does not apply, the
24 primary insurance amount of such individual shall not be
25 less than the primary insurance amount that would be de-

1 terminated for such individual under this section if such in-
2 dividual's average indexed monthly earnings (determined
3 under subsection (b)) were equal to the dollar amount re-
4 ferred to in clause (vi) in connection with such year.”; and

5 (D) in clause (ix) (as redesignated), by
6 striking “amount” and inserting “dollar
7 amount”, by striking “clause (ii)” and inserting
8 “clauses (ii) and (iii)”, and by adding at the
9 end the following new sentence: “Each percent-
10 age established under clause (iv) for any cal-
11 endar year shall be rounded to the nearest
12 0.001 percent, except that any percentage so
13 established which is a multiple of 0.0005 per-
14 cent but not of 0.001 percent shall be rounded
15 to the next higher 0.001 percent.”.

16 (2) EFFECTIVE DATE.—The amendments made
17 by this subsection shall apply with respect to pri-
18 mary insurance amounts of individuals initially be-
19 coming eligible for old-age or disability insurance
20 benefits, or dying, after December 31, 2001.

21 (d) MAXIMUM PERCENT REDUCTION IN PRIMARY IN-
22 SURANCE AMOUNTS.—

23 (1) IN GENERAL.—Section 215(a)(1) of such
24 Act (42 U.S.C. 415(a)(1)) is amended further by
25 adding at the end the following new subparagraph:

1 “(E)(i) Except in any case described in clause (iii),
2 an individual’s primary insurance amount as otherwise de-
3 termined under this section shall in no case be less than
4 such individual’s primary insurance amount determined
5 under this section as if the amendments made by section
6 302 of the Social Security Solvency Act of 2002 had not
7 been enacted, reduced by the maximum percent reduction
8 specified, in connection with the specified year in which
9 such individual initially becomes eligible for old-age insur-
10 ance benefits and in connection with the specified next
11 higher amount of the annual equivalent of average indexed
12 monthly earnings (determined under subsection (b)), in
13 the following table:

Year of initial eligibility	Average indexed monthly earnings (annual equivalent)								
	\$5,000	\$10,000	\$15,000	\$20,000	\$21,000	\$22,000	\$23,000	\$24,000	\$25,000
2003	0.0	0.0	0.0	0.0	1.0	2.0	3.0	4.0	5.0
2004	0.0	0.0	0.0	0.0	1.0	2.0	3.0	4.0	5.0
2005	1.0	1.0	1.0	1.0	2.0	3.0	4.0	5.0	6.0
2006	2.0	2.0	2.0	2.0	3.0	4.0	5.0	6.0	7.0
2007	3.0	3.0	3.0	3.0	4.0	5.0	6.0	7.0	8.0
2008	4.0	4.0	4.0	4.0	5.0	6.0	7.0	8.0	9.0
2009	5.0	5.0	5.0	5.0	6.0	7.0	8.0	9.0	10.0
2010	6.0	6.0	6.0	6.0	7.0	8.0	9.0	10.0	11.0
2011	7.0	7.0	7.0	7.0	8.0	9.0	10.0	11.0	12.0
2012	8.0	8.0	8.0	8.0	9.0	10.0	11.0	12.0	13.0
2013	9.0	9.0	9.0	9.0	10.0	11.0	12.0	13.0	14.0
2014	10.0	10.0	10.0	10.0	11.0	12.0	13.0	14.0	15.0
2015	11.0	11.0	11.0	11.0	12.0	13.0	14.0	15.0	16.0
2016 or later year	12.0	12.0	12.0	12.0	13.0	14.0	15.0	16.0	17.0

14 “(ii) Each of the dollar amounts set forth in the table
15 under clause (i) in connection with any year after 2003
16 shall be deemed to be the product derived by multiplying
17 such dollar amount by the quotient obtained by dividing—

1 “(I) the national average wage index (as de-
2 fined in section 209(k)(1)) for the second calendar
3 year preceeding such calendar year, by

4 “(II) the national average wage index (as so de-
5 fined) for 2001.

6 “(iii) In the case of an individual who becomes enti-
7 tled to old-age insurance benefits by reason entitlement
8 to disability insurance benefits for the month preceding
9 the month in which such individual attains retirement age
10 (as described in section 202(a)(3)), the individual’s pri-
11 mary insurance amount shall be the sum of—

12 “(I) the product derived by multiplying the in-
13 dividual’s primary insurance amount (as determined
14 without regard to the amendments made by section
15 302 of the Social Security Solvency Act of 2002) by
16 the individual’s disability period ratio, plus

17 “(II) the product derived by multiplying the in-
18 dividual’s primary insurance amount (as determined
19 under this section as amended by section 302 of the
20 Social Security Solvency Act of 2002) by the excess
21 of 1 over the individual’s disability period ratio.

22 For purposes of this clause, the term ‘disability period
23 ratio’ means, in connection with an individual, the ratio
24 of the total number of years excluded under section
25 215(b)(2)(B)(iii), by reason of 1 or more periods of dis-

1 ability, in determining thereunder the individual's number
2 of elapsed years, to the sum of such number of excluded
3 years plus such number of elapsed years.”.

4 (2) EFFECTIVE DATE.—The amendment made
5 by this subsection shall apply with respect to bene-
6 fits for months after November 2001.

7 **SEC. 303. INFORMATION RELATING TO BENEFIT LIMITA-**
8 **TIONS PROVIDED IN SOCIAL SECURITY AC-**
9 **COUNT STATEMENTS.**

10 (a) IN GENERAL.—Section 1143 of the Social Secu-
11 rity Act (42 U.S.C. 1320b–13) is amended—

12 (1) in the heading for subsection (a), by strik-
13 ing “Upon Request” and inserting “of Annual
14 Statements”;

15 (2) in subsection (a)(1), by striking
16 “Beginning” and all that follows and inserting the
17 following: “The Commissioner of Social Security
18 shall provide an annual social security account state-
19 ment (hereinafter in this section referred to as the
20 ‘statement’) to each eligible individual for whom a
21 mailing address can be determined through such
22 methods as the Commissioner determines to be ap-
23 propriate.”;

24 (3) in subsection (a)(2)(A), by striking “at the
25 date of the request”;

1 (4) in subsection (a)(2)(B), by striking “on the
2 date of the request”;

3 (5) in subsection (a)(2)(C), by striking “on the
4 date of the request” and by striking “and” at the
5 end;

6 (6) in subsection (a)(2)(D), by inserting “in the
7 case of individuals not receiving benefits,” after
8 “(D)”, and by striking “title XVIII.” and inserting
9 “title XVIII; and”;

10 (7) by adding after subparagraph (D) the fol-
11 lowing:

12 “(E) a table setting forth an estimate, in rela-
13 tion to 1980 and every 10th year thereafter through
14 2030, of the following information:

15 “(i) the total amount of the current ad-
16 justed values of all employee, employer, and
17 self-employment contributions made with re-
18 spect to the wages and self-employment income
19 of the average earner retiring at retirement age
20 in each such year;

21 “(ii) the total amount of the current ad-
22 justed values of the social security old-age or
23 survivors benefits (as defined in section
24 202(y)(3)(D)) paid for all prior months on the
25 basis of the wages and self-employment income

1 of the average earner retiring at retirement age
2 in each such year; and

3 “(iii) the total amount of the current ad-
4 justed values of the monthly benefits which will
5 have been paid under such subsections, as of
6 the time of the death of the average earner re-
7 tiring at retirement age in each such year, on
8 the basis of his or her wages and self-employ-
9 ment income, as projected under the inter-
10 mediate actuarial assumptions utilized by the
11 Board of Trustees of the Federal Old-Age and
12 Survivors Insurance Trust Fund for its most
13 recent annual report issued under section
14 201(c).

15 For purposes of subparagraph (E), the term ‘current ad-
16 justed value’ has the meaning provided in section
17 202(y)(3)(C).”;

18 (8) by striking subsection (b);

19 (9) in subsection (c)—

20 (A) by striking the heading and inserting
21 the following:

22 “Required Estimates of Benefits”;

23 (B) by striking “(c)(1) By not later” and
24 all that follows through “With respect to” in

1 paragraph (2) and inserting “(b) With respect
2 to”; and

3 (C) by adding at the end the following new
4 sentence: “The Commissioner shall provide such
5 estimates of retirement benefit amounts to eligi-
6 ble individuals who have not attained age 50
7 upon request.”; and

8 (10) by adding at the end the following new
9 subsection:

10 “Inclusion of Statements to Retirees With Other Mailings

11 “(c) The Commissioner of Social Security shall en-
12 sure that statements provided to eligible individuals who
13 are receiving benefits under title II are included to the
14 maximum extent practicable with mailings otherwise made
15 to such individuals. The Commissioner shall consult with
16 the Secretary of the Treasury in carrying out the require-
17 ment of this subsection and such Secretary shall provide
18 such appropriate assistance to the Commissioner as is nec-
19 essary to carry out such requirements.”.

20 (b) EFFECTIVE DATE.—The amendments made by
21 subsection (a) shall apply with respect to statements pro-
22 vided on or after October 1, 2002.

23 **SEC. 304. COVERAGE OF NEWLY HIRED STATE AND LOCAL**
24 **EMPLOYEES.**

25 (a) AMENDMENTS TO THE SOCIAL SECURITY ACT.—

1 (1) IN GENERAL.—Paragraph (7) of section
2 210(a) of the Social Security Act (42 U.S.C.
3 410(a)(7)) is amended to read as follows:

4 “(7) Excluded State or local government em-
5 ployment (as defined in subsection (s));”.

6 (2) EXCLUDED STATE OR LOCAL GOVERNMENT
7 EMPLOYMENT.—

8 (A) IN GENERAL.—Section 210 of such
9 Act (42 U.S.C. 410) is amended by adding at
10 the end the following new subsection:

11 “Excluded State or Local Government Employment

12 “(s)(1) IN GENERAL.—The term ‘excluded State or
13 local government employment’ means any service per-
14 formed in the employ of a State, of any political subdivi-
15 sion thereof, or of any instrumentality of any one or more
16 of the foregoing which is wholly owned thereby, if—

17 “(A)(i) such service would be excluded from the
18 term ‘employment’ for purposes of this title if the
19 preceding provisions of this section as in effect in
20 December 2002 had remained in effect, and (ii) the
21 requirements of paragraph (2) are met with respect
22 to such service, or

23 “(B) the requirements of paragraph (3) are met
24 with respect to such service.

1 “(2) EXCEPTION FOR CURRENT EMPLOYMENT
2 WHICH CONTINUES.—

3 “(A) IN GENERAL.—The requirements of this
4 paragraph are met with respect to service for any
5 employer if—

6 “(i) such service is performed by an indi-
7 vidual—

8 “(I) who was performing substantial
9 and regular service for remuneration for
10 that employer before January 1, 2002,

11 “(II) who was a bona fide employee of
12 that employer on December 31, 2001, and

13 “(III) whose employment relationship
14 with that employer was not entered into
15 for purposes of meeting the requirements
16 of this subparagraph, and

17 “(ii) the employment relationship with that
18 employer has not been terminated after Decem-
19 ber 31, 2001.

20 “(B) TREATMENT OF MULTIPLE AGENCIES AND
21 INSTRUMENTALITIES.—For purposes of subpara-
22 graph (A), under regulations (consistent with regula-
23 tions established under section 3121(t)(2)(B) of the
24 Internal Revenue Code of 1986)—

1 “(i) all agencies and instrumentalities of a
2 State (as defined in section 218(b)) or of the
3 District of Columbia shall be treated as a single
4 employer, and

5 “(ii) all agencies and instrumentalities of a
6 political subdivision of a State (as so defined)
7 shall be treated as a single employer and shall
8 not be treated as described in clause (i).

9 “(3) EXCEPTION FOR CERTAIN SERVICES.—

10 “(A) IN GENERAL.—The requirements of this
11 paragraph are met with respect to service if such
12 service is performed—

13 “(i) by an individual who is employed by a
14 State or political subdivision thereof to relieve
15 such individual from unemployment,

16 “(ii) in a hospital, home, or other institu-
17 tion by a patient or inmate thereof as an em-
18 ployee of a State or political subdivision thereof
19 or of the District of Columbia,

20 “(iii) by an individual, as an employee of
21 a State or political subdivision thereof or of the
22 District of Columbia, serving on a temporary
23 basis in case of fire, storm, snow, earthquake,
24 flood, or other similar emergency,

1 “(iv) by any individual as an employee in-
2 cluded under section 5351(2) of title 5, United
3 States Code (relating to certain interns, student
4 nurses, and other student employees of hos-
5 pitals of the District of Columbia Government),
6 other than as a medical or dental intern or a
7 medical or dental resident in training,

8 “(v) by an election official or election
9 worker if the remuneration paid in a calendar
10 year for such service is less than \$1,000 with
11 respect to service performed during 2002, and
12 the adjusted amount determined under sub-
13 paragraph (C) for any subsequent year with re-
14 spect to service performed during such subse-
15 quent year, except to the extent that service by
16 such election official or election worker is in-
17 cluded in employment under an agreement
18 under section 218, or

19 “(vi) by an employee in a position com-
20 pensated solely on a fee basis which is treated
21 pursuant to section 211(c)(2)(E) as a trade or
22 business for purposes of inclusion of such fees
23 in net earnings from self-employment.

24 “(B) DEFINITIONS.—As used in this para-
25 graph, the terms ‘State’ and ‘political subdivision’

1 have the meanings given those terms in section
2 218(b).

3 “(C) ADJUSTMENTS TO DOLLAR AMOUNT FOR
4 ELECTION OFFICIALS AND ELECTION WORKERS.—
5 For each year after 2002, the Commissioner of So-
6 cial Security shall adjust the amount referred to in
7 subparagraph (A)(v) at the same time and in the
8 same manner as is provided under section
9 215(a)(1)(B)(ii) with respect to the amounts re-
10 ferred to in section 215(a)(1)(B)(i), except that—

11 “(i) for purposes of this subparagraph,
12 1999 shall be substituted for the calendar year
13 referred to in section 215(a)(1)(B)(ii)(II), and

14 “(ii) such amount as so adjusted, if not a
15 multiple of \$100, shall be rounded to the next
16 higher multiple of \$100 where such amount is
17 a multiple of \$50 and to the nearest multiple
18 of \$100 in any other case.

19 The Commissioner of Social Security shall determine
20 and publish in the Federal Register each adjusted
21 amount determined under this subparagraph not
22 later than November 1 preceding the year for which
23 the adjustment is made.”.

24 (B) CONFORMING AMENDMENTS.—

1 (i) Subsection (k) of section 210 of
2 such Act (42 U.S.C. 410(k)) (relating to
3 covered transportation service) is repealed.

4 (ii) Section 210(p) of such Act (42
5 U.S.C. 410(p)) is amended—

6 (I) in paragraph (2), by striking
7 “service is performed” and all that
8 follows and inserting “service is serv-
9 ice described in subsection (s)(3)(A).”;
10 and

11 (II) in paragraph (3)(A), by in-
12 serring “under subsection (a)(7) as in
13 effect in December 2001” after
14 “section”.

15 (iii) Section 218(c)(6) of such Act (42
16 U.S.C. 418(c)(6)) is amended—

17 (I) by striking subparagraph (C);

18 (II) by redesignating subpara-
19 graphs (D) and (E) as subparagraphs
20 (C) and (D), respectively; and

21 (III) by striking subparagraph

22 (F) and inserting the following:

23 “(E) service which is included as employment
24 under section 210(a).”

1 (b) AMENDMENTS TO THE INTERNAL REVENUE
2 CODE OF 1986.—

3 (1) IN GENERAL.—Paragraph (7) of section
4 3121(b) of the Internal Revenue Code of 1986
5 (relating to employment) is amended to read as fol-
6 lows:

7 “(7) excluded State or local government em-
8 ployment (as defined in subsection (t));”.

9 (2) EXCLUDED STATE OR LOCAL GOVERNMENT
10 EMPLOYMENT.—Section 3121 of such Code is
11 amended by inserting after subsection (s) the fol-
12 lowing new subsection:

13 “(t) EXCLUDED STATE OR LOCAL GOVERNMENT EM-
14 PLOYMENT.—

15 “(1) IN GENERAL.—For purposes of this chap-
16 ter, the term ‘excluded State or local government
17 employment’ means any service performed in the
18 employ of a State, of any political subdivision there-
19 of, or of any instrumentality of any one or more of
20 the foregoing which is wholly owned thereby, if—

21 “(A)(i) such service would be excluded
22 from the term ‘employment’ for purposes of this
23 chapter if the provisions of subsection (b)(7) as
24 in effect in December 2001 had remained in ef-

1 fect, and (ii) the requirements of paragraph (2)
2 are met with respect to such service, or

3 “(B) the requirements of paragraph (3)
4 are met with respect to such service.

5 “(2) EXCEPTION FOR CURRENT EMPLOYMENT
6 WHICH CONTINUES.—

7 “(A) IN GENERAL.—The requirements of
8 this paragraph are met with respect to service
9 for any employer if—

10 “(i) such service is performed by an
11 individual—

12 “(I) who was performing sub-
13 stantial and regular service for remun-
14 eration for that employer before Jan-
15 uary 1, 2002,

16 “(II) who was a bona fide em-
17 ployee of that employer on December
18 31, 2001, and

19 “(III) whose employment rela-
20 tionship with that employer was not
21 entered into for purposes of meeting
22 the requirements of this subpara-
23 graph, and

1 “(ii) the employment relationship with
2 that employer has not been terminated
3 after December 31, 2001.

4 “(B) TREATMENT OF MULTIPLE AGENCIES
5 AND INSTRUMENTALITIES.—For purposes of
6 subparagraph (A), under regulations—

7 “(i) all agencies and instrumentalities
8 of a State (as defined in section 218(b) of
9 the Social Security Act) or of the District
10 of Columbia shall be treated as a single
11 employer, and

12 “(ii) all agencies and instrumentalities
13 of a political subdivision of a State (as so
14 defined) shall be treated as a single em-
15 ployer and shall not be treated as de-
16 scribed in clause (i).

17 “(3) EXCEPTION FOR CERTAIN SERVICES.—

18 “(A) IN GENERAL.—The requirements of
19 this paragraph are met with respect to service
20 if such service is performed—

21 “(i) by an individual who is employed
22 by a State or political subdivision thereof
23 to relieve such individual from unemploy-
24 ment,

1 “(ii) in a hospital, home, or other in-
2 stitution by a patient or inmate thereof as
3 an employee of a State or political subdivi-
4 sion thereof or of the District of Columbia,

5 “(iii) by an individual, as an employee
6 of a State or political subdivision thereof
7 or of the District of Columbia, serving on
8 a temporary basis in case of fire, storm,
9 snow, earthquake, flood, or other similar
10 emergency,

11 “(iv) by any individual as an employee
12 included under section 5351(2) of title 5,
13 United States Code (relating to certain in-
14 terns, student nurses, and other student
15 employees of hospitals of the District of
16 Columbia Government), other than as a
17 medical or dental intern or a medical or
18 dental resident in training,

19 “(v) by an election official or election
20 worker if the remuneration paid in a cal-
21 endar year for such service is less than
22 \$1,000 with respect to service performed
23 during 2002, and the adjusted amount de-
24 termined under section 210(s)(3)(C) of the
25 Social Security Act for any subsequent

1 year with respect to service performed dur-
2 ing such subsequent year, except to the ex-
3 tent that service by such election official or
4 election worker is included in employment
5 under an agreement under section 218 of
6 the Social Security Act, or

7 “(vi) by an employee in a position
8 compensated solely on a fee basis which is
9 treated pursuant to section 1402(c)(2)(E)
10 as a trade or business for purposes of in-
11 clusion of such fees in net earnings from
12 self-employment.

13 “(B) DEFINITIONS.—As used in this para-
14 graph, the terms ‘State’ and ‘political subdivi-
15 sion’ have the meanings given those terms in
16 section 218(b) of the Social Security Act.”.

17 (3) CONFORMING AMENDMENTS.—

18 (A) Subsection (j) of such section 3121
19 (relating to covered transportation service) is
20 repealed.

21 (B) Paragraph (2) of section 3121(u) of
22 such Code (relating to application of hospital
23 insurance tax to Federal, State, and local em-
24 ployment) is amended—

1 (i) in subparagraph (B), by striking
2 “service is performed” in clause (ii) and all
3 that follows through the end of such sub-
4 paragraph and inserting “service is service
5 described in subsection (t)(3)(A).”; and

6 (ii) in subparagraph (C)(i), by insert-
7 ing “under subsection (b)(7) as in effect in
8 December 2002” after “chapter”.

9 (c) EFFECTIVE DATE.—Except as otherwise provided
10 in this section, the amendments made by this section shall
11 apply with respect to service performed after December
12 31, 2002.

13 **SEC. 305. INCREASE IN MONTHLY INSURANCE BENEFITS**
14 **FOR WIDOWS AND WIDOWERS.**

15 (a) OLD-AGE INSURANCE BENEFITS.—Section
16 202(a) of the Social Security Act (42 U.S.C. 402(a)) is
17 amended by adding at the end the following new sentence:
18 “For any month ending after the month in which the indi-
19 vidual is a widow, widower, surviving divorced wife, or sur-
20 viving divorced husband in connection with any deceased
21 spouse and has not remarried since the death of such de-
22 ceased spouse, the individual’s old-age insurance benefit
23 shall be increased to 110 percent of the individual’s pri-
24 mary insurance amount for such month.”.

1 (b) WIDOW'S INSURANCE BENEFITS.—Section
2 202(e)(2) of such Act (42 U.S.C. 402(e)(2)) is amended—

3 (1) in subparagraph (A), by striking “the pri-
4 mary insurance amount” and inserting “110 percent
5 of the primary insurance amount”;

6 (2) in subparagraph (D)(i), by inserting “110
7 percent of” before “the amount”; and

8 (3) in subparagraph (D)(ii), by striking “82½
9 percent” and inserting “90¼ percent”.

10 (c) WIDOWER'S INSURANCE BENEFITS.—Section
11 202(f)(3) of such Act (42 U.S.C. 402(f)(3)) is amended—

12 (1) in subparagraph (A), by striking “the pri-
13 mary insurance amount” and inserting “110 percent
14 of the primary insurance amount”;

15 (2) in subparagraph (D)(i), by inserting “110
16 percent of” before “the amount”; and

17 (3) in subparagraph (D)(ii), by striking “82½
18 percent” and inserting “90¼ percent”.

19 (d) EFFECTIVE DATE.—The amendments made by
20 this section shall apply with respect to benefits for months
21 after December 2002.

22 **SEC. 306. ACCELERATION OF INCREASE IN DELAYED RE-**
23 **TIREMENT CREDIT.**

24 (a) IN GENERAL.—Section 202(w) of the Social Se-
25 curity Act (42 U.S.C. 402(w)) is amended—

1 (1) in paragraph (1)(A), by striking “the appli-
2 cable percentage (as determined under paragraph
3 (6))” and inserting “ $\frac{2}{3}$ of 1 percent”; and

4 (2) by striking paragraph (6).

5 (b) EFFECTIVE DATE.—The amendments made by
6 this section shall apply with respect to individuals who at-
7 tain retirement age after calendar year 2002.

8 **SEC. 307. AUTHORIZATION FOR REIMBURSEMENT OF FED-**
9 **ERAL DISABILITY INSURANCE TRUST FUND**
10 **FOR CERTAIN COSTS OF DISABILITY INSUR-**
11 **ANCE BENEFITS.**

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

16 “Reimbursement of Federal Disability Insurance Trust
17 Fund for Certain Costs of Disability Insurance Benefits

18 “(p) Clauses (vi) and (vii) of section 215(a)(1)(B)
19 shall apply with respect to benefits paid during any fiscal
20 year only to the extent provided for in advance in an Ap-
21 propriation Act providing for reimbursement of the Fed-
22 eral Disability Insurance Trust Fund for any portion of
23 such benefits representing a net increase resulting from
24 the operation of such clauses. The Commissioner of Social
25 Security shall report to the each House of the Congress

1 as soon as practicable before each fiscal year the Commis-
2 sioner's determination of the amounts necessary to provide
3 for any such net increase for such fiscal year.".

4 **SEC. 308. STUDY TO DEVELOP RECOMMENDATIONS FOR**
5 **PROVIDING FOR ELECTIONS UNDER WHICH**
6 **INDIVIDUALS MAY OPT FOR EXCLUSION**
7 **FROM SOCIAL SECURITY COVERAGE.**

8 (a) IN GENERAL.—As soon as practicable after the
9 date of the enactment of this Act, the Commissioner of
10 Social Security shall conduct a thorough and comprehen-
11 sive study of the most appropriate and feasible means of
12 providing for elections under which individuals may opt
13 for exclusion from coverage under the old-age, survivors,
14 and disability insurance program under part A of title II
15 of the Social Security Act and chapters 2 and 21 of the
16 Internal Revenue Code of 1986.

17 (b) REQUIREMENTS.—In conducting the study pursu-
18 ant to this section, the Commissioner shall prepare and
19 make full use, as appropriate, of such econometric models
20 and actuarial analyses as are necessary to carry out such
21 study. Such study shall take into account the extent to
22 which the old-age, survivors, and disability insurance pro-
23 gram may accommodate such elections and the terms and
24 conditions for such elections which would most effectively
25 permit such accommodation. The Commissioner shall con-

1 duct the study pursuant to this section in consultation
2 with the Board of Trustees of the Federal Old-Age and
3 Survivors Insurance Trust Fund and the Federal Dis-
4 ability Insurance Trust Fund and with other appropriate
5 departments and agencies of the Federal Government, and
6 such other departments and agencies shall provide to the
7 Commissioner such assistance, on a reimbursable basis, as
8 may be necessary and appropriate.

9 (c) REPORT.—Not later than 180 days after the date
10 of the enactment of this Act, the Commissioner of Social
11 Security shall submit to the Committee on Ways and
12 Means of the House of Representatives and the Committee
13 on Finance of the Senate a written report containing a
14 recommendation, or alternative recommendations, for pro-
15 viding for elections described in subsection (a). Such re-
16 port shall contain a complete description of the models and
17 analyses used in carrying out the study pursuant to this
18 section and shall be accompanied by draft legislation
19 which, if enacted, would carry out the recommendations
20 contained in the report.

1 **SEC. 309. INCREASE IN NUMBER OF YEARS DISREGARDED**
2 **IN DETERMINING AVERAGE ANNUAL EARN-**
3 **INGS ON WHICH BENEFIT AMOUNTS ARE**
4 **BASED WHERE REMUNERATIVE WORK IS**
5 **PRECLUDED BY NEED TO PROVIDE CHILD**
6 **CARE.**

7 (a) IN GENERAL.—Section 215(b)(2) of the Social
8 Security Act (42 U.S.C. 415(b)(2)) is amended—

9 (1) by striking the period at the end of clause
10 (ii) of subparagraph (A) and inserting a comma;

11 (2) by striking “Clause (ii), once” after and
12 below clause (ii) of subparagraph (A) and inserting
13 the following:

14 “and reduced further to the extent provided in subpara-
15 graph (B). Clause (ii), once”;

16 (3) by striking “If an individual” in the matter
17 following clause (ii) of subparagraph (A) and all that
18 follows through the end of subparagraph (A);

19 (4) by redesignating subparagraph (B) as sub-
20 paragraph (F); and

21 (5) by inserting after subparagraph (A) the fol-
22 lowing new subparagraphs:

23 “(B) Subject to subparagraph (C), in any case in
24 which—

25 “(i) in any calendar year which is included in
26 an individual’s computation base years, such indi-

1 vidual is living with a child (of such individual or his
2 or her spouse) under the age of 13,

3 “(ii) such calendar year is not disregarded pur-
4 suant to subparagraphs (A) and (E) (in determining
5 such individual’s benefit computation years) by rea-
6 son of the reduction in the number of such individ-
7 ual’s elapsed years under subparagraph (A), and

8 “(iii) during such calendar year, such individual
9 submits to the Commissioner of Social Security, in
10 such form as the Commissioner shall prescribe by
11 regulations, a written statement that the require-
12 ments of clause (i) are met with respect to such cal-
13 endar year,

14 then the number by which such elapsed years are reduced
15 under this paragraph pursuant to subparagraph (A) shall
16 be increased by one (up to a combined total not exceeding
17 5) for each such calendar year.

18 “(C)(i) No calendar year shall be disregarded by rea-
19 son of subparagraph (B) (in determining such individual’s
20 benefit computation years) unless the individual had no
21 earnings as described in section 203(f)(5) for such year.

22 “(ii) No calendar year shall be disregarded by reason
23 of subparagraph (B) (in determining such individual’s
24 benefit computation years) in connection with a child re-
25 ferred to in subparagraph (B)(i) unless the individual was

1 living with the child substantially throughout the period
2 in such year in which the child was alive and under the
3 age of 13 in such year.

4 “(iii) The particular calendar years to be disregarded
5 under this subparagraph (in determining such benefit
6 computation years) shall be those years (not otherwise dis-
7 regarded under subparagraph (A)) which, before the appli-
8 cation of subsection (f), meet the conditions of the pre-
9 ceding provisions of this subparagraph.

10 “(iv) This subparagraph shall apply only to the extent
11 that its application would not result in a lower primary
12 insurance amount.

13 “(D) The number of an individual’s benefit computa-
14 tion years as determined under this paragraph shall in no
15 case be less than 2.”

16 (b) EFFECTIVE DATE.—The amendments made by
17 this section shall apply only with respect to computation
18 base years after 2001.

19 **SEC. 310. EXCLUSION OF DISABLED ADULT CHILDREN**
20 **FROM REDUCTION IN BENEFITS UNDER THE**
21 **FAMILY MAXIMUM PROVISIONS.**

22 (a) IN GENERAL.—Section 203(a)(3) of the Social
23 Security Act (42 U.S.C. 403(a)(3)) is amended by adding
24 at the end the following new subparagraph:

1 “(E) When any of the individuals who are entitled
2 to benefits on the basis of the wages and self-employment
3 income of any insured individual and to whom this sub-
4 section applies is entitled to child’s insurance benefits
5 under section 202(d) on the basis of such wages and self-
6 employment income and is described in section
7 202(d)(1)(G), the benefit to which he or she is so entitled
8 for any month shall be determined without regard to this
9 subsection, and the benefits of all other individuals who
10 are entitled for such month to monthly benefits under sec-
11 tion 202 on the basis of the wages and self-employment
12 income of such insured individual shall be determined as
13 if no such child were entitled to benefits for such month.”.

14 (b) EFFECTIVE DATE.—The amendment made by
15 this section shall apply with respect to benefits for months
16 after December 2001.

17 **TITLE IV—RETIREMENT**
18 **SECURITY**

19 **SEC. 401. PENSIONS AND INDIVIDUAL RETIREMENT AR-**
20 **RANGEMENT PROVISIONS OF THE ECONOMIC**
21 **GROWTH AND TAX RELIEF RECONCILIATION**
22 **ACT OF 2001 MADE PERMANENT.**

23 (a) IN GENERAL.—Section 901 of the Economic
24 Growth and Tax Relief Reconciliation Act of 2001 is

1 amended by adding at the end the following new sub-
2 section:

3 “(c) EXCEPTION.—Subsections (a) and (b) shall not
4 apply to the provisions of, and amendments made by, sub-
5 titles (A) through (F) of title VI (relating to pension and
6 individual retirement arrangement provisions).”.

7 (b) CONFORMING AMENDMENTS.—Section 901(b) of
8 such Act is amended—

9 (1) by striking “and the Employee Retirement
10 Income Security Act of 1974” in the text, and

11 (2) by striking “OF CERTAIN LAWS” in the
12 heading.

13 **SEC. 402. ACCELERATION OF PHASE-INS OF SCHEDULED**
14 **INCREASES IN IRA AND PENSION PLAN CON-**
15 **TRIBUTION LIMITS.**

16 (a) IRA CONTRIBUTION LIMIT.—

17 (1) DEDUCTIBLE AMOUNT.—Subparagraph (A)
18 of section 219(b)(5) of the Internal Revenue Code of
19 1986 is amended to read as follows:

20 “(A) IN GENERAL.—The deductible
21 amount shall be \$5,000.”.

22 (2) CATCH-UP AMOUNT.—Subparagraph (B) of
23 section 219(b)(5) of such Code is amended to read
24 as follows:

1 “(B) CATCH-UP CONTRIBUTIONS FOR INDI-
2 VIDUALS 50 OR OLDER.—In the case of an indi-
3 vidual who has attained the age of 50 before
4 the close of the taxable year, the dollar amount
5 in effect under paragraph (1)(A) for such tax-
6 able year (determined without regard to this
7 paragraph) shall be increased by \$1,000.”.

8 (b) ELECTIVE DEFERRALS.—Subparagraph (B) of
9 section 402(g)(1) of such Code is amended by striking
10 “the amount determined” and all that follows and insert-
11 ing “\$15,000.”.

12 (c) DEFERRED COMPENSATION PLANS OF STATE
13 AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANI-
14 ZATIONS.—Subparagraph (A) of section 457(e)(15) of
15 such Code is amended by striking “the amount deter-
16 mined” and all that follows and inserting “\$15,000.”.

17 (d) SIMPLE RETIREMENT ACCOUNTS.—Clause (i) of
18 section 408(p)(2)(E) of such Code is amended by striking
19 “the amount determined” and all that follows and insert-
20 ing “\$10,000.”.

21 (e) CATCH-UP CONTRIBUTIONS.—Subparagraph (B)
22 of section 414(v)(2)(B) of such Code is amended—

23 (1) in clause (i) by striking “determined” and
24 all that follows and inserting “\$5,000.”, and

1 (2) in clause (ii) by striking “determined” and
2 all that follows and inserting “\$2,500.”.

3 (f) CONFORMING CHANGES TO RELATED COLA
4 PROVISIONS.—

5 (1) IRAS.—Clause (i) of section 219(b)(5)(C)
6 of such Code is amended—

7 (A) by striking “2008” and inserting
8 “2003”, and

9 (B) by striking “2007” and inserting
10 “2002”.

11 (2) ELECTIVE DEFERRALS.—Paragraph (4) of
12 section 402(g) of such Code is amended—

13 (A) by striking “2006” and inserting
14 “2003”, and

15 (B) by striking “2005” and inserting
16 “2002”.

17 (3) DEFERRED COMPENSATION PLANS OF
18 STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT
19 ORGANIZATIONS.—Subparagraph (B) of section
20 457(e)(15) of such Code is amended—

21 (A) by striking “2006” and inserting
22 “2003”, and

23 (B) by striking “2005” and inserting
24 “2002”.

1 (4) SIMPLE RETIREMENT ACCOUNTS.—Clause
2 (ii) of section 408(p)(2)(E) of such Code is amend-
3 ed—

4 (A) by striking “2005” and inserting
5 “2003”, and

6 (B) by striking “2004” and inserting
7 “2002”.

8 (5) CATCH-UP CONTRIBUTIONS.—Subparagraph
9 (C) of section 414(v)(2) of such Code is amended—

10 (A) by striking “2006” and inserting
11 “2003”, and

12 (B) by striking “2005” and inserting
13 “2002”.

14 (g) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to years beginning after December
16 31, 2002.

17 **SEC. 403. REFUNDABLE CREDIT FOR PREMIUMS ON QUALI-**
18 **FIED LONG-TERM CARE INSURANCE CON-**
19 **TRACTS.**

20 (a) IN GENERAL.—Subpart C of part IV of sub-
21 chapter A of chapter 1 of the Internal Revenue Code of
22 1986 (relating to refundable credits) is amended by redес-
23 ignating section 36 as section 37 and by inserting after
24 section 35 the following new section:

1 **“SEC. 36. PREMIUMS ON QUALIFIED LONG-TERM CARE IN-**
2 **SURANCE CONTRACTS.**

3 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
4 dividual, there shall be allowed as a credit against the tax
5 imposed by this chapter for the taxable year an amount
6 equal to 33 percent of the amount of the eligible long-
7 term care premiums (as defined in section 213(d)(10))
8 paid during the taxable year for coverage for the taxpayer,
9 his spouse, and dependents under a qualified long-term
10 care insurance contract (as defined in section 7702B(b)).

11 “(b) DOLLAR LIMITATION.—The amount of the cred-
12 it allowed to a taxpayer under subsection (a) shall not ex-
13 ceed \$1,000 (\$2,000 in the case of a joint return).

14 “(c) COORDINATION WITH OTHER DEDUCTIONS.—
15 Any amount paid by a taxpayer for any qualified long-
16 term care insurance contract to which subsection (a) ap-
17 plies shall not be taken into account in computing the
18 amount allowable to the taxpayer as a deduction under
19 section 162(l) or 213(a).”

20 (b) TECHNICAL AMENDMENTS.—

21 (1) Paragraph (2) of section 1324(b) of title
22 31, United States Code, is amended by inserting “or
23 from section 36 of such Code” before the period at
24 the end.

25 (2) The table of sections for subpart C of part
26 IV of subchapter A of chapter 1 of the Internal Rev-

1 enue Code of 1986 is amended by striking the item
 2 relating to section 35 and inserting the following
 3 new items:

“Sec. 36. Premiums on qualified long-term care insurance con-
 tracts.

“Sec. 37. Overpayment of taxes.”.

4 (c) EFFECTIVE DATE.—The amendments made by
 5 this section shall apply to taxable years beginning after
 6 December 31, 2002.

7 **SEC. 404. TAX CREDIT FOR TAXPAYERS PROVIDING CARE**
 8 **FOR DEPENDENT PARENTS IN THEIR HOUSE-**
 9 **HOLDS.**

10 (a) IN GENERAL.—Subpart A of part IV of sub-
 11 chapter A of chapter 1 of the Internal Revenue Code of
 12 1986 (relating to nonrefundable personal credits) is
 13 amended by inserting after section 25B the following new
 14 section:

15 **“SEC. 25C. CREDIT FOR TAXPAYERS PROVIDING CARE FOR**
 16 **DEPENDENT PARENTS IN THEIR HOUSE-**
 17 **HOLDS.**

18 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
 19 dividual who maintains a household which includes as a
 20 member one or more qualified persons, there shall be al-
 21 lowed as a credit against the tax imposed by this chapter
 22 for the taxable year an amount equal to the qualified care
 23 expenses.

1 “(b) LIMITATION.—The amount of the credit allowed
2 by subsection (a) shall not exceed \$1,000 for each quali-
3 fied person.

4 “(c) QUALIFIED PERSON.—For purposes of this sec-
5 tion, the term ‘qualified person’ means any individual—

6 “(1) who is a father or mother of the taxpayer,
7 his spouse, or his former spouse or who is an ances-
8 tor of such a father or mother,

9 “(2) for whom the taxpayer is allowed an ex-
10 emption amount under section 151, and

11 “(3) whose name and TIN are included on the
12 taxpayer’s return for the taxable year.

13 For purposes of paragraph (1), a stepfather or stepmother
14 shall be treated as a father or mother.

15 “(d) QUALIFIED CARE EXPENSES.—For purposes of
16 this section, the term ‘qualified care expenses’ means the
17 amount paid or incurred by the taxpayer to provide care
18 for a qualified person in the principal residence of the tax-
19 payer. No amount shall be taken into account under this
20 section with respect to a qualified person for any expense
21 incurred for a period during which such person is receiving
22 qualified long-term care services (as defined in section
23 7702B(e)(1)) outside of such residence.

24 “(e) DENIAL OF DOUBLE BENEFIT.—A credit shall
25 not be allowed under this section for any expense for which

1 a credit or deduction is claimed under any other provision
2 of this title.

3 “(f) SPECIAL RULES.—For purposes of this section,
4 rules similar to the rules of paragraphs (1), (2), (3), and
5 (4) of section 21(e) shall apply.”

6 (b) CLERICAL AMENDMENT.—The table of sections
7 for subpart A of part IV of subchapter A of chapter 1
8 of such Code is amended by inserting after the item relat-
9 ing to section 25B the following new item:

“Sec. 25C. Credit for taxpayers providing care for dependent par-
ents in their households.”

10 (c) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to taxable years beginning after
12 December 31, 2002.

13 **SEC. 405. NONREFUNDABLE TAX CREDIT FOR EXPENSES OF**
14 **SENIORS FOR MAINTAINING A PRINCIPAL**
15 **RESIDENCE.**

16 (a) IN GENERAL.—Subpart A of part IV of sub-
17 chapter A of chapter 1 of the Internal Revenue Code of
18 1986 (relating to nonrefundable personal credits) is
19 amended by inserting after section 25C the following new
20 section:

21 **“SEC. 25D. EXPENSES OF SENIORS FOR MAINTAINING A**
22 **PRINCIPAL RESIDENCE.**

23 “(a) ALLOWANCE OF CREDIT.—In the case of an eli-
24 gible individual, at the election of the taxpayer there shall

1 be allowed as a credit against the tax imposed by this sub-
2 title for the taxable year an amount equal to qualified resi-
3 dence expenses.

4 “(b) DOLLAR LIMITATION.—The amount allowed as
5 a credit by subsection (a) for the taxable year shall not
6 exceed \$1,000.

7 “(c) QUALIFIED RESIDENCE EXPENSES.—For pur-
8 poses of this section, the term ‘qualified residence ex-
9 penses’ means the amount paid or incurred by the tax-
10 payer for the maintenance of the principal residence of
11 the taxpayer. No amount shall be taken into account
12 under this section for any expense incurred for a period
13 during which the taxpayer is receiving qualified long-term
14 care services (as defined in section 7702B(c)(1)) outside
15 of such residence.

16 “(d) ELIGIBLE INDIVIDUAL.—The term ‘eligible indi-
17 vidual’ means an individual who has attained age 65 as
18 of the end of the taxable year.

19 “(e) SPECIAL RULES.—

20 “(1) DOUBLE BENEFIT.—A credit shall not be
21 allowed under this section for any expense for which
22 a credit or deduction is claimed under any other pro-
23 vision of this title.

24 “(2) ELECTION.—A taxpayer who claims the
25 credit under section 25C for a taxable year shall not

1 be eligible to make an election under this section for
2 such year.”.

3 (b) CONFORMING AMENDMENT.—The table of sec-
4 tions for subpart A of part IV of subchapter A of chapter
5 1 of such Code is amended by inserting after the item
6 relating to section 25C the following new item:

“Sec. 25D. Expenses of seniors for maintaining a principal resi-
dence.”

7 (c) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to taxable years beginning after
9 December 31, 2002.

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