



United States Government Accountability Office
Washington, DC 20548

May 6, 2005

The Honorable Bill Thomas
Chairman
Committee on Ways and Means
House of Representatives

Subject: *Options for Social Security Reform*

Dear Mr. Chairman:

As you requested during my testimony before your committee on March 9, 2005,¹ this report provides a list of the various options available to reform the Social Security program. Following this introduction is a table that lists a wide range of provisions that various proposals have used in some form. Following the table is a list of such proposals, all of which have been scored by the Social Security Administration's Office of the Chief Actuary (SSA/OCACT).²

Our list of provisions is intended to be generic and conceptual in nature. The list attempts to reflect, in general terms, all provisions that have appeared in SSA-scored proposals in the past few years. For each generic provision, a variety of approaches and parameters could be applied and have been proposed. For example, provisions to raise the retirement age take a variety of forms, including simply speeding up the currently scheduled increase from age 65 to 67, increasing the full retirement age to 68 or 70, indexing the retirement age to improvements in longevity, and even combinations of these. All of these variations have been consolidated into one general provision for increasing the retirement age.

The table also briefly discusses each reform option in general terms according to GAO's framework for evaluating Social Security reform proposals, which is described below. Our observations draw on GAO's

¹GAO, *Social Security Reform: Early Action Would Be Prudent*. [GAO-05-397T](#). Washington, D.C.: March 9, 2005.

²These actuarial scorings can be found at <http://www.ssa.gov/OACT/solvency/index.html>.

extensive body of work evaluating various aspects of Social Security reform.³

The Social Security program is so deeply woven into the fabric of our nation that any proposed reform should be considered as a package and with respect to all of the major elements of the Social Security program (e.g., retirement, disability, and survivors). The provisions of any particular reform proposal can interact with one another. In addition, every proposal will have pluses and minuses, and no plan will satisfy everyone on all dimensions. As a result, Social Security reform proposals should be evaluated as a package of reform options designed to meet certain stated objectives.

Furthermore, any analyses of reform proposals should reflect the fact that the program faces a long-term actuarial deficit and that benefit reductions and/or revenue increases will be necessary to restore solvency. Therefore, it is important to establish the appropriate comparisons or benchmarks against which reforms should be measured. This requires looking at proposed reforms from at least two benchmarks—one that raises revenue to fund currently scheduled benefits (promised benefits) and one that adjusts benefits to a level supported by current tax financing (funded benefits).

GAO's framework for evaluating reform proposals considers not only solvency but other aspects of the program as well. Specifically, the framework uses three basic criteria:

- the extent to which a proposal achieves sustainable solvency and how it would affect the economy, including overall savings rates, and the federal budget;
- the relative balance struck between the goals of individual equity (rates of return on individual contributions) and income adequacy (level and certainty of benefits); and
- how readily a proposal could be implemented, administered, and explained to the public.

³A list of GAO reports on Social Security is included at the end of this report. In these reports, you can find more detailed discussions about more specific proposals than the generic options listed in this report. All of the reports are available at <http://www.gao.gov/>.

The weight that different policy makers may place on different criteria will vary, depending on how they value different attributes. For example, if policy makers determine that offering individual choice and control is a primary concern, then a reform proposal emphasizing individual equity considerations might be preferred. Alternatively, if policy makers determine that benefit certainty and security are of primary concern, then reform proposals that stress adequacy and sustainable solvency might be preferred. As the Congress fashions a comprehensive proposal, however, it will ultimately have to consider the relative importance it places on each of these criteria.

Financing Sustainable Solvency

Our sustainable solvency standard encompasses several ways of looking at the Social Security program's financing needs. While 75-year actuarial balance is generally used in evaluating the long-term financial outlook of the Social Security program and reform proposals, it is not sufficient in gauging the program's solvency after the 75th year. For example, under the trustees' intermediate assumptions, each year the 75-year actuarial period changes, and a year with a surplus is replaced by a new 75th year that has an increasingly significant deficit. As a result, changes made to restore trust fund solvency only for the 75-year period can result in future actuarial imbalances almost immediately. Reform plans that lead to sustainable solvency would be those that consider the broader issues of fiscal sustainability and affordability over the long term. Specifically, a standard of sustainable solvency also involves looking at (1) the balance between program income and costs beyond the 75th year and (2) the share of the budget and economy consumed by Social Security spending.

Balancing Adequacy and Equity

The current Social Security system's benefit structure attempts to strike a balance between the goals of retirement income adequacy and individual equity. From the beginning, benefits were set in a way that focused especially on replacing some portion of workers' pre-retirement earnings. Over time other changes were made that were intended to enhance the program's role in helping ensure adequate incomes. Income adequacy, therefore, is addressed in part through the program's progressive benefit structure, providing proportionately larger benefits to lower earners and certain household types, such as those with dependents. Income adequacy may pose special concerns for Social Security's disability and survivor beneficiaries. Such beneficiaries generally have lower benefits than old-age beneficiaries; shorter work histories may contribute to those lower benefit levels. In addition, since they generally start collecting benefits earlier in their lives than old-age beneficiaries, they may collect benefits

over longer periods of time, so benefit reductions may affect them more, especially if the reductions have a compounding effect.

In contrast to income adequacy, individual equity refers to the relationship between contributions made and benefits received. This can be thought of as the rate of return on individual contributions. Individual equity concerns can also include equity effects between generations and how much choice and control individuals have over their program contributions.

Balancing the seemingly conflicting objectives of adequacy and equity through the political process has resulted in the design of the current Social Security program and should still be taken into account in any proposed reforms. Moreover, proposals can have a range of effects that vary by income level and other characteristics, and this variation may reflect interactions among various provisions. For example, some proposals reduce promised benefits overall while simultaneously enhancing benefits for low earners or widows, who face greater risks of poverty.⁴

Implementing and Administering Proposed Reforms

Any reforms will require time and resources to implement, and those demands will depend on the complexity of the changes. Moreover, greater program complexity makes implementation and administration more costly and harder to explain to the public. Continued public acceptance of and confidence in the Social Security program requires that any reforms and their implications for benefits be clearly communicated and well understood. This means that the American people must understand why change is necessary, what the reforms are, how they are to be implemented and administered, and how they will affect workers' own retirement, disability, or survivors' income. All reform proposals will require some additional outreach and assistance to the public so that future beneficiaries can adjust their retirement and other financial planning accordingly. The more transparent the implementation and administration of reform, and the more carefully such reform is phased in, the more likely it will be understood and accepted by the American people.

⁴GAO, *Social Security: Distribution of Benefits and Taxes Relative to Earnings Level*. [GAO-04-747](#). Washington, D.C.: June 15, 2004.

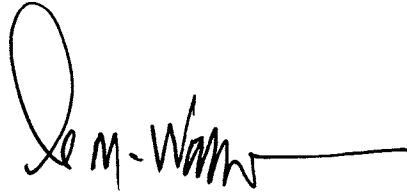
As you know, the Social Security system faces serious solvency and sustainability challenges in the longer term. While the Social Security program does not face an immediate crisis, it does have a \$4 trillion gap between promised and funded benefits in current dollar terms over the next 75 years. This gap is growing as time passes, and given this and other major fiscal challenges, including expected growth in federal health spending, it would be prudent to act sooner rather than later to reform the Social Security program.

Furthermore, Social Security's finances have important implications for the overall federal budget. The current Social Security surpluses will begin to decline in 2009, thereby putting additional pressure on the balance of the federal budget. In addition, Social Security will start running a cash flow deficit in 2017, which will require the federal government to either increase federal taxes, cut other federal spending, or borrow additional funds from the public in order to redeem bonds in the Social Security trust funds.

Social Security is not the only challenge we face in addressing the economic security needs of our elderly and disabled populations. Any changes to Social Security should be considered in the context of the problems currently facing our nation's private pension system. These include the chronically low levels of pension coverage of the private sector workforce; the continued decline in the number of defined benefit plans, coupled with the termination of large underfunded plans by bankrupt firms; and the shift by employers to defined contribution plans, where workers face the potential for greater return but also assume greater financial risk. Health care and long-term care needs will also place growing demands on the government, employers, beneficiaries, and their families. At the same time, our nation's personal savings rate is low by international standards.

Failure to take steps to address our large and structural long-range fiscal imbalance, which is driven in large part by projected increases in Medicare, Medicaid, and Social Security spending, will ultimately have significant adverse consequences for our future economy and the quality of life of our children, grandchildren, and future generations of Americans. As a result, the federal government needs to engage in a fundamental review, reassessment, and reprioritization that will ultimately have to span all major spending programs and tax policies.

We look forward to continuing to work with your committee and the Congress to address Social Security and other important issues.

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States

Table 1: Options for Social Security Reform and Examples of Potential Implications

Options	Sustainable solvency	Balancing adequacy and equity	Implementation and administration	Additional considerations
Changing benefits		<ul style="list-style-type: none"> • Effects can vary by earnings and other characteristics • Some proposals reduce benefits overall while enhancing benefits for low earners and/or widows 		<ul style="list-style-type: none"> • Choosing benefit reductions instead of increases to payroll tax revenues implies a societal choice that workers will have less income during retirement and more during working years
• Changing the formula for initial benefits				
<ul style="list-style-type: none"> • Adjusting formula factors⁵ e.g., reducing 15% factor to 10%, or, alternatively, reducing all factors proportionally by x percent 	<ul style="list-style-type: none"> • Can range from small to very large reductions in Social Security’s actuarial deficit • Sustainability might require further reductions, for example, as longevity continues to improve 	<ul style="list-style-type: none"> • Reductions can be either proportional or nonproportional • Nonproportional reductions could be targeted toward benefit adequacy for lower earners but might raise equity concerns <ul style="list-style-type: none"> - Progressive benefits not the same as adequate benefits⁶ - To avoid unintended benefit effects, disability and survivor benefits might require other changes 	<ul style="list-style-type: none"> • Relies on existing administrative framework • Disability applications might increase because annual formula reductions create incentive to qualify for benefits in earliest possible year 	<ul style="list-style-type: none"> • Provides flexibility • Can be used, in effect, to implement other types of reductions for some or all covered workers, e.g., indexing benefits to prices instead of wages.

⁵When workers retire, become disabled, or die, Social Security uses their lifetime earnings records to determine their Primary Insurance Amount (PIA), on which initial monthly benefits are based. The PIA is determined by applying the Social Security benefit formula to a worker’s Average Indexed Monthly Earnings (AIME). The AIME is determined by taking the lifetime earnings record, indexing it to average wage growth, and taking the average. For workers who become eligible for benefits in 2005, PIA equals 90 percent of the first \$627 dollars of AIME plus 32 percent of AIME over \$627 through \$3,779 dollars of AIME plus 15 percent of AIME above \$3,779.

⁶Under some reform scenarios, Social Security could distribute benefits more progressively than current law yet provide lower, less adequate benefits.

Options	Sustainable solvency	Balancing adequacy and equity	Implementation and administration	Additional considerations
<ul style="list-style-type: none"> Indexing formula to prices instead of wages 	<ul style="list-style-type: none"> Could largely or completely eliminate actuarial deficit by itself, depending on specifics Ongoing indexing could result in benefit reductions greater than needed to achieve sustainable solvency 	<ul style="list-style-type: none"> If applied across the board, would be a type of proportional reduction Results in gradually and perpetually declining replacement rates; that is, benefits would replace smaller and smaller percentage of pre-retirement earnings In effect, fixes benefit levels relative to the standard of living of a particular year (e.g., 2005)⁷ Effect may be smaller on disabled and young survivor beneficiaries, given shorter work histories Could be applied differently according to earnings level to minimize adequacy effects (e.g. progressive indexing) 	<ul style="list-style-type: none"> Could be implemented with changes to existing benefit formula, using existing administrative framework⁸ Disability applications might increase because annual formula reductions create incentive to qualify for benefits in earliest possible year 	
<ul style="list-style-type: none"> Indexing formula to longevity 	<ul style="list-style-type: none"> Small to moderate reduction in actuarial deficit, depending on specifics 	<ul style="list-style-type: none"> A type of proportional reduction Benefits would replace smaller and smaller percentage of pre-retirement earnings To avoid unintended benefit effects, disability 	<ul style="list-style-type: none"> Could be implemented with proportional reduction to formula factors, using existing administrative framework⁹ Disability 	

⁷When wages grow faster than prices, workers can afford to consume more goods and services, their purchasing power increases, and the standard of living improves. Historically, wages have grown faster than prices, on average. Since Social Security's current benefit formula is indexed to wages, increases in initial benefits keep pace with improvements in the standard of living. Indexing benefits to prices instead of wages would make the purchasing power of benefits remain constant even if wage growth were improving purchasing power for the rest of society.

⁸In its scorings, SSA/OCACT implements this provision using changes to the PIA benefit formula.

⁹In its scorings, SSA/OCACT implements this provision using a proportional reduction to the benefit formula factors.

Options	Sustainable solvency	Balancing adequacy and equity	Implementation and administration	Additional considerations
		and survivor benefits might require other changes	applications might increase because annual formula reductions create incentive to qualify for benefits in earliest possible year	
<ul style="list-style-type: none"> Increasing benefit computation period, e.g., from 35 to 38 or 40 years. 	<ul style="list-style-type: none"> Relatively small reduction in actuarial deficit 	<ul style="list-style-type: none"> Would parallel existing increase in Full Retirement Age Might create additional incentive to work longer Increase to 38 years would reduce benefits by roughly 3%-6% depending on earnings pattern Largest reductions for those groups more likely to have intermittent work histories, e.g., women with children 	<ul style="list-style-type: none"> Relies on existing administrative framework 	
<ul style="list-style-type: none"> Increasing benefits for widow(er)s, e.g., pay 75% of couples' benefit 	<ul style="list-style-type: none"> Very small increase in actuarial deficit 	<ul style="list-style-type: none"> Enhances benefit adequacy for widows 	<ul style="list-style-type: none"> Relies on existing administrative framework 	
<ul style="list-style-type: none"> Enhancing benefits for lower income workers, e.g., minimum benefit amounts as percentage of poverty for qualifying workers 	<ul style="list-style-type: none"> Small increase in actuarial deficit, depending on proposal 	<ul style="list-style-type: none"> Enhances benefit adequacy for low-wage full-career workers Qualifications for years of work could be scaled for workers who become disabled or die before retirement. Proposals so far generally do not provide enhanced benefit for those groups more likely to have intermittent work histories, e.g., women with children 	<ul style="list-style-type: none"> Proposed provisions have involved fairly complicated formulas 	
<ul style="list-style-type: none"> Increasing actuarial adjustment factors for early or delayed retirement 	<ul style="list-style-type: none"> On balance, small reduction in actuarial deficit Increasing delayed retirement credit would slightly increase actuarial deficit 	<ul style="list-style-type: none"> Currently, earnings after retirement have small effect on benefit amounts Increasing reductions for early retirement may affect adequacy 	<ul style="list-style-type: none"> Relies on existing administrative framework 	<ul style="list-style-type: none"> Would increase incentives to work longer, which could help reduce overall fiscal pressures on federal budget

Options	Sustainable solvency	Balancing adequacy and equity	Implementation and administration	Additional considerations
<ul style="list-style-type: none"> Modifying annual cost-of-living adjustments (COLAs) to benefits, e.g., reducing by 0.5 or 1.0 percentage points 	<ul style="list-style-type: none"> Moderate to large reduction in actuarial deficit 	<ul style="list-style-type: none"> Would have increasing cumulative effect over additional years benefits are received Greatest potential adverse effect on oldest, disabled, and survivors, who are at higher risk of poverty 	<ul style="list-style-type: none"> Relies on existing administrative framework 	<ul style="list-style-type: none"> Adjustment could more accurately reflect inflation
<ul style="list-style-type: none"> Increasing full retirement age, e.g., eliminating hiatus in current increase, increase to age 68 or 70 	<ul style="list-style-type: none"> Depending on provision, small to moderate reduction in actuarial deficit 	<ul style="list-style-type: none"> Largely the same, in effect, as proportional benefit reduction, especially if early retirement age remains at 62 Workers in certain occupations (e.g., construction) may not be able to work longer and have to take benefit reductions, though other program changes could address this concern 	<ul style="list-style-type: none"> Relies on existing administrative framework Increasing full retirement age could increase disability applications 	<ul style="list-style-type: none"> Would reflect increasing longevity, which is a contributor to insolvency Raises question of whether to also increase early retirement age (now 62), which would encourage individuals to work longer
Changing revenues	<ul style="list-style-type: none"> May have adverse labor supply and growth effects, depending on amount and design 	<ul style="list-style-type: none"> Distributional effects depend on approach to increase 		<ul style="list-style-type: none"> Choosing increases to payroll tax revenues instead of benefit reductions implies a societal choice that workers will have less income during working years and more during retirement
• Raising payroll tax revenues				
<ul style="list-style-type: none"> Increasing payroll tax rate 	<ul style="list-style-type: none"> Effect on actuarial deficit depends on size of increase Increase of 1.92 percentage points would achieve 75-year solvency, but 76th year would lead 	<ul style="list-style-type: none"> The sooner it applies, the greater the intergenerational equity, since earlier birth groups enjoy higher implicit returns Would help avoid benefit reductions 	<ul style="list-style-type: none"> Relies on existing administrative framework 	

¹⁰The payroll tax is regressive due to the cap on taxable earnings even though the tax rate is itself proportional.

Options	Sustainable solvency	Balancing adequacy and equity	Implementation and administration	Additional considerations
<ul style="list-style-type: none"> Raising cap on taxable earnings (with or without retaining cap for benefit calculation) 	<ul style="list-style-type: none"> back to an actuarial deficit Effects range from small to more than eliminating actuarial deficit If higher earnings would also be used in benefit computations, would also increase long-term benefit payouts, but at lowest replacement rate (15 percent) 	<ul style="list-style-type: none"> - Regressive nature of tax¹⁰ falls more heavily on low wage workers and their employers Increase could make percentage of earnings covered more comparable to historical levels Diminishes equity because earnings above the cap are replaced at lower rate than lower earnings levels Burden falls on those 6 percent of covered workers with earnings above present cap, especially those who are self-employed or small business owners, who effectively pay both employer and employee share. 	<ul style="list-style-type: none"> Relies on existing administrative framework 	<ul style="list-style-type: none"> Would increase incentives for higher earners to structure more of their compensation as nonwage income, (e.g., other benefits, stock options)
<ul style="list-style-type: none"> Expanding coverage to all state and local government workers 	<ul style="list-style-type: none"> Small reduction in actuarial deficit Would also increase long-term benefit levels as newly covered earnings would entitle affected workers to associated benefits 	<ul style="list-style-type: none"> Would improve equity in the sense that all workers would be treated the same Social Security may offer employees additional protections compared with their current benefit packages, depending on how those packages change 	<ul style="list-style-type: none"> Would simplify administration and, in long run, address equity concerns arising from GPO and WEP¹¹ Affected state and local governments and employees would need time to adjust and to implement complementary changes 	<ul style="list-style-type: none"> May impose additional costs on state and local governments

¹¹The Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP) are existing Social Security provisions that reduce Social Security benefits for those who also receive pensions from employment that is not covered by Social Security. Noncovered workers do not pay Social Security taxes on their noncovered earnings. These provisions are intended to treat such beneficiaries in a manner that parallels treatment of beneficiaries who paid Social Security taxes on all their lifetime earnings. See GAO, *Social Security: Issues Relating to Noncoverage of Public Employees*. GAO-03-710T. Washington, D.C.: May 1, 2003.

Options	Sustainable solvency	Balancing adequacy and equity	Implementation and administration	Additional considerations
<ul style="list-style-type: none"> • Other revenue options 				
<ul style="list-style-type: none"> • Tapping other revenue sources, e.g., general fund transfers, dedicated revenue sources 	<ul style="list-style-type: none"> • Effect on actuarial balance depends upon the size and use of transfers • General fund transfers raise government's need for cash, which must be raised with spending cuts, tax increases or borrowing from the public. • Would compete with other programs or tax reductions in the general budget • Could worsen long-range fiscal imbalance 	<ul style="list-style-type: none"> • Could change equity of program significantly but in ways that are hard to quantify • Given current and projected budget deficits, transfers likely to result in additional tax burdens in future years • Difficult to determine who bears burden of transfers 		<ul style="list-style-type: none"> • Dilutes principle that program is self-financed, which <ul style="list-style-type: none"> - imposes discipline that benefits cannot expand beyond what dedicated revenues can pay for - since benefits are "paid for," avoids stigma that they are welfare • Introduction of general fund transfers could lead to incremental enhancement of benefits • Could increase political risk of future benefit reductions
<ul style="list-style-type: none"> • Change taxation of Social Security benefits, e.g., tax them in a manner similar to private pension income, that is, tax benefits that exceed contributions 	<ul style="list-style-type: none"> • Small reduction in actuarial deficit 	<ul style="list-style-type: none"> • Would parallel treatment of other retirement income • Given other existing tax provisions, roughly a third of Social Security beneficiaries would still not pay income tax on their benefits 	<ul style="list-style-type: none"> • Administration may be manageable with phase-in 	
<ul style="list-style-type: none"> • Increasing investment returns, either by government investing or through individual accounts 	<ul style="list-style-type: none"> • Potential effect depends on size of trust funds, extent of advanced funding, portfolio, and fees • Investing trust fund surplus would increase government borrowing needs and debt held by the public 	<ul style="list-style-type: none"> • Increasing returns improves equity • Effect on adequacy depends on how risk is distributed 	<ul style="list-style-type: none"> • Administration is likely manageable, depending on approach 	<ul style="list-style-type: none"> • Could be done either by trust funds or through individual accounts • Trust fund investment raises concern about role of government in investment markets, though some approaches may mitigate that

Options	Sustainable solvency	Balancing adequacy and equity	Implementation and administration	Additional considerations
Changing the program structure with individual accounts	<ul style="list-style-type: none"> • Would not achieve solvency unless coupled with other changes • Would move system toward more advance funding • Effect on national saving depends on a variety of factors, including how the accounts are funded; increases in personal saving may be offset by increases in government or personal borrowing or reductions in other personal savings 	<ul style="list-style-type: none"> • Would generally improve equity • With higher returns, might help make up for benefit reductions used to achieve solvency • Shifts system from social insurance to individual responsibility for saving • Shifts program from an exclusively defined-benefit structure • Redistributes risk • If market returns are poor, would raise adequacy risks 	<ul style="list-style-type: none"> • By adding new system, involves more complexity and cost, including services for <ul style="list-style-type: none"> - collection of deposits - account administration - investment management - distribution in retirement - educational efforts relating to all phases • Posting contributions to individuals' accounts in real time might be expected but much more difficult than current record keeping 	<p>concern</p> <ul style="list-style-type: none"> • Depending on approach, government, employers, financial institutions, and individuals could play various roles in contribution, accumulation, and distribution phases • Could provide additional saving vehicle for those without a pension
• Contribution phase				
<ul style="list-style-type: none"> • A voluntary approach would (in comparison to a mandatory one) 	<ul style="list-style-type: none"> • Raise question of whether incentives are desired • Possibly pose adverse selection issues 	<ul style="list-style-type: none"> • Give greater choice 	<ul style="list-style-type: none"> • Require greater level of educational effort • Require additional administrative complexity and cost 	
<ul style="list-style-type: none"> • Account contribution rate 		<ul style="list-style-type: none"> • Contribution rates can be proportional or progressive 		<ul style="list-style-type: none"> • Size of contribution rate determines relative role of DC vs. DB portion of program

Options	Sustainable solvency	Balancing adequacy and equity	Implementation and administration	Additional considerations
<ul style="list-style-type: none"> Add-on vs. carve-out¹² 	<ul style="list-style-type: none"> Carve-outs pose transition costs, which are typically financed with general revenue transfers (see above) Either option, if using general revenues, would raise government's need for cash, and without compensating elements, compound fiscal challenges 	<ul style="list-style-type: none"> Carve-outs divert revenues from current system, involve commensurate offsets to Social Security defined benefit, while offering ownership of new account 	<ul style="list-style-type: none"> Add-ons or carve-outs could build on existing IRA, 401(k), 403(b), 457, Thrift Savings Plan, and other defined contribution systems Carve-outs require additional, potentially complicated, calculations for benefit offsets 	
<ul style="list-style-type: none"> Accumulation phase 				
<ul style="list-style-type: none"> Investment options 		<ul style="list-style-type: none"> For workers who become disabled or die, less time to accumulate compound earnings; also, some proposals limit their access to accounts before retirement age 	<ul style="list-style-type: none"> Limiting investment alternatives may minimize administrative costs, promote diversification (by limiting ability to concentrate), and simplify individual decision making while also reducing individual choice and control 	

¹²In GAO's work to date, we have used the term "add-on" accounts to refer to accounts that would have no effect on Social Security benefits, would supplement those benefits, and would draw contributions from new revenue streams. In contrast, we have used the term "carve-out" accounts to refer to accounts that would result in some reduction or offset to Social Security benefits because contributions to those accounts would draw on existing Social Security revenues. Others have used these terms in different manners. For example, some have used "add-ons" in connection with new individual accounts funded from new revenue sources that result in a reduction or offset to some or all Social Security benefits. In the final analysis, there are two key dimensions: first, whether individual accounts are funded from existing or new revenue sources; second, whether individual accounts result in some reduction or offset to Social Security benefits.

Options	Sustainable solvency	Balancing adequacy and equity	Implementation and administration	Additional considerations
• Distribution phase				
<ul style="list-style-type: none"> • Draw down alternatives, e.g., annuities vs. phased withdrawal 	<ul style="list-style-type: none"> • Increased government role in annuitization or other distributions could potentially affect its cash position 	<ul style="list-style-type: none"> • Mandatory annuity effectively transfers income from the shorter-lived to the longer-lived • Mandatory annuity might be limited to amount necessary to avoid poverty • For workers who become disabled, if allowed access to accounts before retirement, may need to stretch assets over more years • Concern is preserving assets to meet adequacy needs for rest-of-life and avoid leakages 	<ul style="list-style-type: none"> • Mandatory annuitization could minimize adverse selection¹³ • Phased withdrawal could mirror minimum distribution requirements for IRAs while adding maximum distributions • Would require new rules to handle cases of survivors, divorced beneficiaries, and other situations 	<ul style="list-style-type: none"> • Annuities involve risk shifting to insurers with an associated cost
<ul style="list-style-type: none"> • Guarantees 	<ul style="list-style-type: none"> • Could create risk to taxpayers through contingent liability and moral hazard issues¹⁴ 	<ul style="list-style-type: none"> • Help ensure provision of specified benefit level 		<ul style="list-style-type: none"> • Offer incentive to participate
<ul style="list-style-type: none"> • Pre-retirement access 		<ul style="list-style-type: none"> • Risks leakage that diminishes adequacy in retirement • Enhances individual sense of ownership and control 	<ul style="list-style-type: none"> • Would involve additional administrative services 	<ul style="list-style-type: none"> • Greater incentive to participate
• Administration				
<ul style="list-style-type: none"> • Centralized vs. decentralized 		<ul style="list-style-type: none"> • Decentralized offers greater choice and control to individuals 	<ul style="list-style-type: none"> • Centralized would be much less costly 	

Source: GAO.

¹³Adverse selection occurs, for example, when only healthy people buy annuities and on average live longer than nonbuyers, driving up the cost of annuities.

¹⁴Moral hazard would occur if account holders faced an incentive to take more investment risk than they would otherwise as a result of having guarantee to fall back on.

Proposals That Include the Various Options Listed in Table 1

The following proposals include one or more of the options listed in table 1. All of these proposals have been scored by the Social Security Administration's Office of the Chief Actuary:¹⁵

- Ball
- Commission to Strengthen Social Security (CSSS)
- DeFazio
- DeMint
- Diamond-Orszag
- Ferrara
- Graham
- Hagel
- Johnson
- Kolbe-Stenholm
- Pozen
- Ryan-Sununu
- Shaw
- Smith

In addition, many of the options listed in table 1 appear in the proposals of the 1994-1996 Advisory Council on Social Security, the Center for Strategic and International Studies, and the Committee for Economic Development. Also, the Social Security Advisory Board recently asked the Social Security actuaries to score a number of provisions, all of which are included in the list in table 1.

¹⁵These actuarial scorings can be found at <http://www.ssa.gov/OACT/solvency/index.html>.

Related GAO Products

Social Security Reform: Early Action Would Be Prudent. [GAO-05-397T](#). Washington, D.C.: March 9, 2005.

Social Security: Distribution of Benefits and Taxes Relative to Earnings Level. [GAO-04-747](#). Washington, D.C.: June 15, 2004.

Social Security Reform: Analysis of a Trust Fund Exhaustion Scenario. [GAO-03-907](#). Washington, D.C.: July 29, 2003.

Social Security: Issues Relating to Noncoverage of Public Employees. [GAO-03-710T](#). Washington, D.C.: May 1, 2003.

Social Security and Minorities: Earnings, Disability Incidence, and Mortality Are Key Factors That Influence Taxes Paid and Benefits Received. [GAO-03-387](#). Washington, D.C.: April 23, 2003.

Social Security Reform: Analysis of Reform Models Developed by the President's Commission to Strengthen Social Security. [GAO-03-310](#). Washington, D.C.: January 15, 2003.

Social Security Reform: Information on Using a Voluntary Approach to Individual Accounts. [GAO-03-309](#). Washington, D.C.: March 10, 2003.

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