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BACKGROUND PRESS BRIEFING
ON SOCIAL SECURITY

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MS. BUCHAN: The briefing today is on background, so all of the comments here today are to be attributed to senior administration officials. It is also embargoed until the President delivers his speech tonight.

The President, tonight, as you heard yesterday from a senior administration official, will be talking about the need to permanently fix Social Security. He will make clear that he's willing to lead in a bipartisan way to boldly confront the challenges of Social Security and to make the choices necessary to make sure that Social Security is there for future generations. He will spend a good deal of his remarks tonight talking about personal accounts and how personal accounts would work. And the senior administration official is going to outline what the President will be saying on personal accounts and answer your questions.

With that, I will turn it over to the senior administration official.

Q Will there be a transcript?

MS. BUCHAN: I believe so, yes.

Q Is there any reason why it would have to be on background, if it's after -- if it's embargoed until after he speaks?

MS. BUCHAN: It's on background. (Laughter.)

SENIOR ADMINISTRATION OFFICIAL: Thanks, Claire. Thanks, everybody. I greatly appreciate you being here and your attention to this issue. I'd like to say a little bit, first, about the basics of the Social Security problem and try to put the President's remarks tonight in some context.

The reason that we have a Social Security problem, of course, is a demographic one. We have an aging population. People are living longer. There are, therefore, many more retirees to support than was the case when Social Security was first created. In 1950, you had 16 people putting into the system for each one withdrawing benefits. Today that ratio is down to 3.3 to one. And by the time today's young workers hit retirement, that ratio is going to be down to two workers supporting each person on Social Security.

This is not a distant problem, this is a problem that is going to be felt within the next few years. The first baby boomers start hitting the retirement rolls in 2008. That's just three years away. The first baby boomers will turn 62 in that year, and they'll start drawing early retirement benefits. And data shows that the majority of people do take benefits at the earliest opportunity, at the age of 62. What's going to happen from that point forward is that we'll see an escalating cost growth in the Social Security system. And the consequence is that by 2018, we are projected to be owing more in annual benefits than the system will be producing in annual revenues.

Now, obviously, those cash deficits will be small at first, but at the point where they start to be felt, the federal government has to find additional money in order to pay full benefits that are owed. It can only do that via a couple of means. One is by borrowing money; one is by raising taxes; one is by cutting spending in other parts of the budget to try to make room. But the point is that from 2018 onward, the program is going to enter a phase of permanent and growing annual deficits, and the federal government is going to have to find additional money in order to make up for that, under current law.

Those deficits are going to grow pretty rapidly starting in 2018. In fact, by 2027, the annual deficits, above and beyond all the payroll taxes that the system is collecting, will be over $200 billion a year. By 2033, the annual deficits will be over $300 billion a year. And that's adjusted for inflation, that's actually in terms of today's dollars.

The basic nature of the Social Security problem is not one in which there is significant disagreement among the non-partisan scoring agencies. The Social Security trustees, the Congressional Budget Office, the General Accounting Office, President Clinton's Social Security Advisory Council, and certainly President Bush's Commission to Strengthen Social Security all agreed on the fundamental nature of the problem facing Social Security. And they all found that the program is on a currently unsustainable course. There are some differences between these agencies as to the specific numbers, but they all adopt the same tone and same general language in describing the challenge facing us going forward.

The Social Security trustees find that the program's permanent cash deficits begin in 2018. The Congressional Budget Office has that date occurring as late 2020. That's not a significant difference; that's only two years between the two of them, and they both reach the same conclusion, which is that we do need to act in order to put Social Security on a sustainable course.

I'd like to talk a little bit about some of things that are occasionally said about the severity of the problem, or the lack thereof. It is occasionally said or implied that this might be a problem that could go away by itself, that maybe if the estimates and projections turn out a little bit different than the trustees' projections, that perhaps we won't have a problem. This is, for lack of a better word, simply incorrect. The Social Security trustees each year do an analysis that shows what happens if things turn out differently from projected -- what happens if the economics are little bit different, what happens if the demographics are little bit different. That analysis shows that there's a 95 percent chance that the permanent deficits facing Social Security will start to hit somewhere between 2013 and 2023. So even under a wide variety of possible assumptions going forward, we're going to see the permanent deficits facing the program within the next 10 to 20 years to a 95 percent certainty.

The problem that we now face is not one that we can tax our way out of, for a very simple reason: The costs and the current program are growing faster than the underlying tax base. So if we were to raise taxes today to deal with it, and the costs of the program continued to grow faster than the tax base, then in the future, future generations would simply have to come back and raise taxes again.

It's also not a problem that, under the current system, we can grow our way out of. The current system is designed so that benefits grow as fast as wages and the economy grow. And what this means is that if the economy does grow faster than projected, then wages will grow faster than projected; we will collect higher revenues, to be sure, and we might be able to push off that 2018 date, or 2042 date by a few years, but we would also owe more benefits as a consequence of the higher growth. And the fundamental long-term picture facing the program would not change significantly.

Now, the President, as Claire said, has called for a permanent fix for Social Security, and he's going to express anew tonight his willingness and desire to work with Congress on the details and specifics of a permanent fix. In calling for action to make Social Security permanently sustainable, the President's position is very consistent with expert opinion over the last decade, at least. President Clinton's Social Security Advisory Council, the technical panel of the Social Security Advisory Board, the President's Commission to Strengthen Social Security, General Accounting Office, and the Social Security trustees have all in recent years called for action to make Social Security not only temporarily solvent, but permanently sustainable, or sustainably solvent. And that is certainly the message of the President tonight and the standard to which we believe reform should be held.

All of these non-partisan agencies have also been very clear that the earlier we take action, the better off we will be. No matter what your policy preference is -- whether it's on the tax side, or on the benefit side, or with respect to personal accounts -- our choices are best the earliest that we act. Every year that we wait to deal with the problem is a year that the problem in Social Security grows greater. The trustees' report -- the last trustees' report estimated that the cost of one years' inaction is approximately $600 billion. And all of the choices that would confront us next year or the year after would be just that much more difficult than if we acted now. That has also been a consistent message from the Social Security trustees, from GAO, CBO and others, that the sooner action is taken, the better off for everybody.

Now, the President is going to outline some specifics about the personal accounts tonight, and I'd like to go through a few of them. First of these is that there will be no changes in the current system for people who were born before 1950 -- these are people who are 55 and older now. If you were born in 1949 or before, you would not be impacted by any of the changes envisioned by the President for Social Security. You would not have any changes to your benefits; you would also not be participating in personal accounts.

For individuals who were born in 1950 or later, they would have the opportunity -- the voluntary opportunity -- to participate in personal accounts. If they wished, they could not choose a personal account and they could stay entirely within the current system. The President has said we want to make sure that system is reformed to be fiscally sustainable. Certainly, though, individuals have the option of not taking a personal account and paying the benefits that the traditional system would be able to pay.

With respect to the structure of the personal accounts, the administrative structure, we would establish a structure that is somewhat similar to the thrift savings plan that federal employees, like myself, participate in. This is a centralized administrative entity. It should lay to rest any suggestion that we're thinking of privatizing the Social Security system. The thrift savings plan is not a privatized system. It's actually -- it's publicly administered; it's administered by the federal government. And it enables participants -- like myself and like other federal employees -- to realize the advantages of investment gains by having personal accounts that can be invested in diversified and secure funds going forward, and also a number of safety protections that we want to be able to provide to Social Security participants.

Specifically, the investment options that individuals would have would be somewhat similar to the thrift savings plan. In the thrift savings plan, individuals are given presently a choice of five funds. There is a stock fund -- a large cap stock fund, a small cap stock fund, an international stock fund. There is a corporate bond fund, and there's also a fund of Treasury bonds. It's a very small, limited number. They're all broadly diversified. And the number of choices that individuals face is very limited, but also very simple. You don't have to be a financial genius to be able to save money in a thrift savings plan. And I'm living proof of that.

The thrift savings plan will also be offering shortly something called a life cycle fund. This is a fund where the proportion of the fund that is invested in stocks declines as an individual ages. And the closer they get to retirement age, the smaller the proportion of the fund that is invested in stocks. This life cycle fund works on the premise that when you are younger, you would want the higher growth and the more aggressive investment that would come from equity investments; as you get closer to retirement, by the reasoning of the life cycle fund, you would want a more certain -- not as high or aggressive a growth, but a more certain annual return in your investments as you head closer to retirement.

The life cycle fund would simply be another choice that's made available to participants in the Social Security personal accounts. For those workers who are nearing retirement, it would be offered as the standard choice. If people didn't make a choice to the contrary, they would be -- their standard selection would be deemed to be this life cycle fund. Individuals would have the opportunity to increase their amount of investments in other instruments beyond what is available in the life cycle fund, if they chose. However, they would have to sign some forms and get the sign-off of their spouse, if any, to show that they're aware of the implications of having a different investment mix that close to retirement.

The thrift savings plan has the virtue of offering very low administrative costs, certainly much lower than many have talked about with respect to Social Security personal accounts. For the types of personal accounts that I've just described, we have an estimate from the Social

Security actuary of 30 basis points for the administrative costs -- that equates to 0.3 percent of account balances in a particular year.

One specification I would give about that is that the vast majority of those administrative expenses are actually for things like record-keeping, keeping track of the decisions made by individuals, and the amounts of contributions placed in their accounts. And those are, of course, transactions that would be handled by the administering entity, the administering government entity, as opposed to be handled by an outside entity, or a Wall Street firm or anything of the type. The thrift savings plan, for example, most of the administrative costs of that plan are actually administrative costs that are handled and financed by the federal government, as opposed to by Wall Street.

Participants would not be permitted, under the system, to have pre-retirement access to their personal accounts. The accounts will be held and protected to fund benefits when they hit retirement age. They would not be permitted to make loans to themselves through the accounts, nor would they be permitted to borrow against them.

Upon retirement, upon reaching retirement age, there would be some limitations on how they could withdraw money from the accounts. If an individual had a personal account balance, if they had chosen to take a personal account, they would not be able to withdraw money from their account to such a degree that by doing so they would move themselves below the poverty line. In other words, there would have to be a sufficient amount coming to them, in terms of a monthly inflation index benefit stream, from the traditional system and the annuitized portion of their personal account to be able to fund a poverty-level benefit.

Now, to the extent that their personal account enables them to have total benefits that are higher than that, they would have flexibility over the disposition of those funds. They would be permitted to leave those funds in the account to continue to appreciate; they could withdraw those amounts as lump sums to deal with a pressing financial need -- and, obviously, any additional accumulations in the accounts could be left as an inheritance. But the main restriction, again, to repeat, is that people would not be permitted to withdraw money from the accounts to such a degree that by doing so they would spend themselves below the poverty line.

The accounts would be phased in according to the age of the work force. The first year that we envision that people would have a complete investment control of their personal accounts -- 2009. We would have people born in 1965 and earlier participating in the accounts in those years -- in that year, if they chose. Those people, obviously, are roughly 40 years old or turning 40 this year.

In the second year of implementation, the opportunity to invest in the personal accounts would be extended to those born in 1978 and earlier. And then in the third year of implementation, all eligible workers would be able to participate in personal accounts if they chose.

There's a couple of reasons for this. One is, in order to ease the administrative transition to personal accounts -- we don't want to do it for the whole work force all at once, but we want to phase it in. Secondly, when it comes to phasing in participating, we think it's more important to start with the workers who are closer to retirement. If they were held back in the phase-in process, obviously, they have fewer years to elapse between the point of investment in the account and the time they'd be claiming retirement benefits. So if they were to miss years during the implementation lag, they'd be missing one of a smaller number of potential investment years. So we think it's important to start with the oldest workers, enable them to be in the personal accounts earlier, and then gradually phase down to the younger workers.

The size of the personal accounts would be limited to 4 percent of a worker's wages from their payroll taxes. But there would be a cap placed on the accounts in the first year -- contributions to the accounts of $1,000. Now, each year that cap thereafter would rise in increments of $100 on top of the natural wage growth that drives the growth in payroll taxes. And what that means is that over time, more and more of the work force would be able to contribute the full 4 percent of their wages to the personal accounts.

We thought it was very important to start in the early period with the full 4 percent, rather than phasing up the percentage. This is very important to low-income workers to make sure that they get appreciable gains from the accounts. If we started out with a lower percentage, the potential dollar gains for low-income workers would be that much more limited. So instead of phasing up the percentage, what we're doing is starting by phasing up the cap of $1,000 and starting with the full 4 percent.

With respect to the fiscal effects of the personal accounts, in a long-term sense -- and I know those of you who have talked to me have heard me say this before -- but in the long-term sense, obviously, the personal accounts, as we would structure them, would not create a net new cost for the system. To the extent that people put money in these accounts and invest in these accounts, there would be a corresponding reduction in the government's liabilities from the Social Security system that is equal in present value to the money placed in the personal accounts up front. So in a long-term sense, the personal accounts would have a net neutral effect on the fiscal situation of the Social Security and on the federal government.

I would hasten to point out that this is distinct from something like an add-on account, where under an add-on account you actually would have a net new cost because you would have -- you would require resources up front to fund the accounts, but the accounts, themselves, would be creating additional -- or would be a part of an additional program or additional obligations on top of the current Social Security system, rather than addressing existing obligations. So an add-on account would add to the net cost of the system, but the accounts as we are envisioning them would actually be no net cost for the system over time.

In the near-term, however, of course, there will be transition financing required. Our estimate of the total amount of transition financing for the accounts, according to the schedule that I've outlined before, is about $664 billion through the end of the budget window of 2015. If you assume that -- debt service effects on top of that, that would be another $90 billion.

I think that's the end of my specifications on the account details. I'd be happy to take any questions. And again, I thank you for your attention. And I'm going to have to come up with a system for choosing who gets to ask the first question.

Q The life cycle accounts -- did you say that they are not offered yet under the thrift savings plan, but they would be under these private accounts?

SENIOR ADMINISTRATION OFFICIAL: That's right. TSP is coming forward with the life cycle fund. It's a new fund under TSP.

Q When does it start, do you know?

SENIOR ADMINISTRATION OFFICIAL: I don't know the precise date. It's soon. I mean, they've already sort of debuted it and talked about it in the public space. But I don't think it's yet available.

Q And the administrative fees that you talked here, how does that compare with out in the private sector?

SENIOR ADMINISTRATION OFFICIAL: They're considerably smaller. These are 30 basis points. The private sector tends to be higher. It's not quite as low as the thrift savings plan now has. The thrift savings plan, by different estimates, is about 6 or 8 basis points, reflecting the fact that the thrift savings plan only has to administer the accounts of employees of the federal government. So the Social Security actuaries' estimates are a little bit higher than for the thrift savings plan, mostly from a record-keeping perspective. There wouldn't be any increase in the cost of things like fund management and other things that are controllable by economies of scale.

Q So if I had $100, I'm paying 30 cents? Is that correct?

SENIOR ADMINISTRATION OFFICIAL: That's right.

Q Will the kinds of accounts available to participants in this program directly mirror those that you described as now part of a TSP?

SENIOR ADMINISTRATION OFFICIAL: "Directly" is a slightly loaded adjective. I mean, there would be obvious parallels and many similarities. There would be some respects in which it would be inherently different, obviously, because --

Q Would there be the same number of accounts available, and would they, in general terms, reflect those that are now available under TSP?

SENIOR ADMINISTRATION OFFICIAL: They wouldn't necessarily stay in the same number forever. As this new system got up and running, you're going to have more participants and a greater aggregate amount of investment than is in the thrift savings plan. And I think over time what you would see is similar types of funds, but probably a larger number of funds, so as to prevent a concentration of too many assets in any one particular fund.

Q At the beginning of this program, what funds would be available to people?

SENIOR ADMINISTRATION OFFICIAL: It would be very similar to TSP. I think the five funds in TSP are a reasonable guide to what we'd be starting with.

Q You talked about the $664 billion for the near-term costs. There's been a lot of speculation in advance that it would be something like $2 trillion. Talk a little bit more about that. How do you square that?

SENIOR ADMINISTRATION OFFICIAL: I don't want to say too much about it. Obviously, the $2 trillion number is not a number that was ever generated by us or by the Social Security actuaries, or any of the other nonpartisan scoring agencies. There were different assumptions that went into that number, and they reflected, I think, the thinking of other people beyond the scoring agencies.

The number that I read here is impacted by a couple of things. It's impacted by the timing and the implementation of the personal accounts, our phase-in schedule for participation in the accounts, and the actuaries estimates of total participation in the accounts at the end of the phase-in period.

Q Can you talk about over periods of time what an average rate of return is on some of these accounts, and under TSP, if you will? I'm not sure how you equate that --

SENIOR ADMINISTRATION OFFICIAL: Well, actually, the TSP publishes their rates of return -- if you go to tsp.gov you can look them up. The C-fund has a 10-year average rate of return of roughly 11 percent. The G-fund is around 6 percent. The S-fund is 9.7 percent -- that's the small cap fund. That's the historic information on the TSP fund.

Now, the Social Security actuaries make their own estimates about the portfolio returns on personal accounts. And those tend to reflect an assumption of a blend of 50 percent equities, 30 percent corporate bonds and 20 percent government bonds. And when they put all that together and subtract out administrative costs, they come up with a 4.6 percent above inflation. It's 4.9 percent before the administrative costs, and then 4.6 percent after. That's the actuaries portfolio assumption. And when you're scoring plans you're usually just bound by the actuaries' assumption, but that's their intermediate assumption.

Q How do the personal accounts guarantee permanent solvency for Social Security?

SENIOR ADMINISTRATION OFFICIAL: Well, we talked about the personal accounts being in the context of an overall plan to create a permanently solvent Social Security system. What I've laid out here are details of the administrative structure of the personal accounts. The larger question of the comprehensive plan to fix Social Security permanently is really subject to the details of discussions between the President and members of Congress.

Q Well, is the President going to talk about any benefit cuts that may be necessary to close the funding gap that's going to occur over the next 75 years --

SENIOR ADMINISTRATION OFFICIAL: I think the way I'd answer that -- obviously, the first part of the answer is you'll know soon enough how the President puts it forward. But I think the President is going to make it very clear that -- there won't be any doubt after the President speaks tonight that we do need to step up to the plate and make choices to fix Social Security's finances. I think his general attitude has been one of openness and engagement and a willingness to keep a lot of different ideas on the table. It probably wouldn't be appropriate for me to discuss the merits or demerits of any particular option for fixing Social Security's finances, beyond I think just saying the President is going to make it pretty clear tonight that a wide variety of measures will be on the table for doing that.

Q But don't you think it's going to be inevitable that Democrats and others will try to clobber you on the idea that you've put out what you perceive as the easy, good news and here's the accounts, but not tell people, here's what's needed to be done as far as what some people call future promised scheduled benefits and so forth? Would you acknowledge that you've basically not made the hard choice on that today?

SENIOR ADMINISTRATION OFFICIAL: Well, I would be delighted if everyone agreed that the account announcements were really good news. And we obviously think it is. But, again, I'm not sure that the premise of the question necessarily holds because I think the President is going to be, I think, very clear about the need for everyone to work together to make the choices necessary to fix the system.

Q But as Claire and your colleague said yesterday, the President is going to show leadership and no doubt and so forth -- what would you say to those who would say it's not leadership to basically not make the hardest choice, which is to tell people future benefits now scheduled won't happen; this may not be a net gain, even with the private accounts? So how would you respond to that?

SENIOR ADMINISTRATION OFFICIAL: Well, I think the President is certainly going to speak very forcefully and very truthfully both tonight and in upcoming days about the nature of the gap right now between what the current system has promised and the benefits that it can actually deliver. And I think in signaling his willingness to deal with that, he's setting an important tone for working with Congress in the weeks ahead. To the extent that we can -- if Congress is willing to join in that message, we think that advances the ball forward considerably.

Q If I could follow up on a couple of questions that have already been asked -- can you give us a second 10-year estimate on the revenue effect? Can you tell us how you would pay for that, in the first 10 years' revenue loss? And am I right in assuming that in the way you describe this, because it's a wash in terms of the net effect on Social Security from the accounts by themselves, that it would be fair to describe this as having -- the personal accounts by themselves as having no effect whatsoever on the solvency issue?

SENIOR ADMINISTRATION OFFICIAL: On the second point, that's a fair inference. On the first point, the long-term picture, of course, as you know, is very -- it's a very comprehensive picture. You're looking forward 75 years over all time, depending on how you gauge things. And that can only be done accurately in the context of a comprehensive plan to fix the system. For example, if we were to do projections out beyond 2015, we would have to model what were the hypothetical changes made to fix the system's finances, which are at this time yet undetermined.

Now, what the President has said is that there will be no changes in the benefits now for people born 1949 and before. So what that does is that gives us a certain window where we can say with some clarity what the fiscal effects would be. That covers a period of time in the near-term where we know there won't be appreciable changes in the benefit stream. And we also -- based on what we've outlined here -- have a fair ability to estimate the amount of money going into the personal accounts.

We can put those together and come up with a picture of how things will look as far as those specifications go. Looking out beyond that would require us to speculate about the nature of the choices made to fix the Social Security system, which we're leaving open for a discussion with Congress.

Q Putting those aside, what is the revenue implication of a fully phased-in 4 percent account of the type that you've laid out?

SENIOR ADMINISTRATION OFFICIAL: It would be very different depending overall on whether or not it was done alone or in the context of a comprehensive plan.

Q Assuming it's done alone, since that's all you're putting out here --

SENIOR ADMINISTRATION OFFICIAL: And the problem with assuming it's done alone is that we aren't advocating that it be done alone. We're advocating that it be done in the context of a comprehensive plan.

Q But people are going to want to know what is the cost.

Q But you're not saying what else is in there. You're not saying what else is in the comprehensive plan, so --

SENIOR ADMINISTRATION OFFICIAL: Well, when we have -- at the point where we can attach numbers to a comprehensive plan and model the effects of the accounts in that context, of course we'll put those numbers forward. But until that -- those specifications exist, we don't have the ability to project that.

Q In saying that there is no net added cost to the program, are you implying -- is it implicit that there is a benefit offset of one-third current guaranteed benefit because you're diverting one-third of revenues away from this program? If that's not correct, what would the benefit offset be to traditional benefits, and how would it be calculated?

SENIOR ADMINISTRATION OFFICIAL: The way that the election is put before the individual in a personal account structure of this type is that in return for the opportunity to get the benefits from the personal account, the person foregoes a certain amount of benefits from the traditional system.

Now, the way that election is structured, the person comes out ahead if their personal account exceeds a 3 percent real rate of return, which is the rate of return that the trust fund bonds receive. So, basically, the net effect on an individual's benefits would be zero if his personal account earned a 3 percent real rate of return. To the extent that his personal account gets a higher rate of return, his net benefit would increase as a consequence of making that decision.

Q So he would only get a benefit to the extent that his portfolio performed in excess of 3 percent?

SENIOR ADMINISTRATION OFFICIAL: Right. You can think of it as saying -- if you were making a decision on where to put your money going forward over the next 10 years, and you're saying, should I put it in this account or that account, if you're choosing to put your money over here instead of over here, then the net effect on you, as an individual, is to compare what would be the rate of return you get from this system, as opposed to putting it over here. And that would be the difference between the two.

Q Short of 3 percent, would he make whole or would he get less than the current guaranteed benefit?

SENIOR ADMINISTRATION OFFICIAL: Well, there's a implication at the end of your question which -- you have to remember, the current system can't pay the current guaranteed benefit, so --

Q -- is to be paid through 2042 or 2052, the point -- are you suggesting that would not be paid?

SENIOR ADMINISTRATION OFFICIAL: Well, it's -- well, actually, it's -- I don't want to get off on too far of a tangent, but the Congressional Budget Office actually put out a paper this week which made a modification to what they had previously said about what current law was. And they made it very clear that current law is actually the level of benefits the current system can actually pay, as opposed to the level of benefits the current system is promising. So if you ask the question in terms of --

Q But they also said it can pay current level benefits until 2052 -- correct?

SENIOR ADMINISTRATION OFFICIAL: But the Congressional Budget Office is also very careful to say that starting in 2019 or 2020, the resources are not there to pay those benefits.

Q On the phase-in period, could you explain why you decided to begin the phase-in in 2009? And then, by the end of the 10-year window, what participational rate would you estimate of all eligible people would be using private accounts?

SENIOR ADMINISTRATION OFFICIAL: We work off of the actuaries' estimates for participation. And their intermediate estimate is to have two-thirds participation, two-thirds of all eligibles participate.

Q The 2009 phase-in, why did you choose that? That's four years --

SENIOR ADMINISTRATION OFFICIAL: We spent a lot of time going over the administrative aspects of setting up the accounts, and that seemed to us a realistic schedule for getting people into the accounts.

Q So people who don't -- people who choose not to take a personal account are not guaranteed the current schedule of benefits, they're --

SENIOR ADMINISTRATION OFFICIAL: Under the current system, they are definitely not.

Q And they're not under this --

SENIOR ADMINISTRATION OFFICIAL: Under no scenario are they -- could they be. Unless you posit a very large tax increase.

Q Is there an option for a opt-out after accounts grow to a certain point, where they could have a wider range of investment choices?

SENIOR ADMINISTRATION OFFICIAL: We're not specifying anything like that at this time. There's no discussion of anything like that in the specifics we're putting out today.

Q You said that there's a limitation on withdrawal at retirement, that they would have to take out enough to ensure themselves from combined with the regular system benefit and poverty level. What if there's insufficient funds in their personal accounts combined with the regular fund to give them a poverty-level income --

SENIOR ADMINISTRATION OFFICIAL: That is obviously a situation that faces people in the current system, as well. The limitation that we're putting is basically on those who have a total amount of money beyond that, so that they cannot, by spending down the personal account, place themselves into poverty as a consequence.

Obviously, if the overall benefit were below the poverty level, they would basically have to annuitize all of it and take it all as a monthly stream of benefits.

Q And if it was inadequate to provide that poverty level stream, what would happen? In other words, if there was not enough money if they annuitized it to produce and income stream that brought them to the poverty level, what would you do?

Q How would you make it up?

SENIOR ADMINISTRATION OFFICIAL: I'm not -- they would be in the same situation that a person is today who had a benefit that's below the poverty level.

Q So they just sink below the poverty level?

SENIOR ADMINISTRATION OFFICIAL: But the -- I'm not sure if I'm understanding your question.

Q Right now, the benefit, guaranteed benefit would be above the poverty level, wouldn't it?

SENIOR ADMINISTRATION OFFICIAL: No. Many people are actually below the poverty level.

Q Who are receiving Social Security?

SENIOR ADMINISTRATION OFFICIAL: Yes.

Q Let me try to ask a previous question a different way, that seems to me to be separate than any benefit cuts. In what year would the personal accounts make back enough money to make up for the money that was borrowed to set them up?

SENIOR ADMINISTRATION OFFICIAL: I don't have a precise answer to that. Obviously, if you think about it in the case of a particular individual --

Q I'm not asking about a particular individual, I'm asking about the whole cost -- and if you can't give a precise year, how about an approximate year -- when would the money be made back with these personal accounts? They're going to generate income; when would they make back enough money to make up what you borrow?

SENIOR ADMINISTRATION OFFICIAL: Well, at the instant you create the accounts you are creating a reduction in the government's unfunded obligation. So from the moment the investment occurs in the account, there's a neutrality in the government's overall fiscal position. So it's not something that's sort of hypothetical or distant in that sense. Basically, you're making an off-setting reduction in the government's obligations going forward that is equivalent --

Q There's a time lag between those.

SENIOR ADMINISTRATION OFFICIAL: Well, but -- no, there isn't, though. There is a time lag in the cash flow, but in the net indebtedness of the federal government. If the question is, what is the overall impact on the government's debt situation, that would be neutral from the point of enactment.

Q No, I'm wondering -- the money that needs to be borrowed initially to seed these accounts, when does that get made back by the earnings that the people experience from accounts?

SENIOR ADMINISTRATION OFFICIAL: The earnings that people experience from accounts is not a part of the equation because the earnings in the accounts are not seen by the government after they accrue. So I'm not --

Q When do you make up the $664 billion?

Q When would you make up the borrowed --

SENIOR ADMINISTRATION OFFICIAL: That's really a function of the overall plan. I mean, you have to model -- in order to know that, you have to model it in the context of an overall plan to fix the system's finances. I mean, all of these plans have different cash flow effects, and the timing of them changes from plan to plan. And you can't really answer that in the abstract without knowing how it functions within the context of an overall plan to fix the system.

Q Could I ask about the thrift savings plan? First of all, do I understand it that right now the thrift savings plan functions as an add-on; you, or members of

Congress, get their Social Security benefits when they retire, and then they get whatever they earn in their accounts -- is that right?

SENIOR ADMINISTRATION OFFICIAL: That's right.

Q I want to understand this poverty line protection. I have to buy an annuity such that I won't fall below the poverty line with just my annuity; or my annuity and my Social Security; or my annuity and my Social Security, and my 401k and anything else?

SENIOR ADMINISTRATION OFFICIAL: It's just your traditional Social Security and the Social Security personal account.

Q Okay, then one other question in that regard. The Social Security Administration developed a lot of their figures around their median worker. One of the things that has been very appealing about this account, I think, that the President has pushed is the issue that you would have something to pass on to your heirs. Have you done any runs that suggest how much of the median worker who works a 20-year career at $34,000, whatever, or a 40-year career, would have left after he or she buys the annuity? Or would it be all gone, to by an annuity to ensure that --

SENIOR ADMINISTRATION OFFICIAL: The best way to answer that is to say there has been analysis done of plans that use this type of structure. For example, SSA did an analysis of the Lindsey Graham proposal that basically produced projections on what were the typical bequests that could be left in particular years, and what proportion of the benefit would have to be taken as an annuity, and what proportion could be passed on. Obviously, we're not in the same position to be able to do that here because we don't have a comprehensive plan to model.

But there have been analyses that have been done on those, including on some of the commission models, as well. And I think what they generally show is that the limitation that I described before strikes a pretty fair balance between making sure that people have enough to make sure that if they live a long time, that they are protected from poverty going forward. But for those populations where they die earlier, they have an opportunity where not so much has been annuitized they can leave a substantial bequest.

Q Can I just -- can I interrupt? I'd like to ask a couple questions that are sort of along the lines that were just being asked. The first is, and maybe I'm just missing something, but is there a requirement for annuitization of some minimum amount on your -- the portfolio at some point?

SENIOR ADMINISTRATION OFFICIAL: There -- it would -- I want to be careful in how I define this because this is another one of those things that its effects could change according to the specifics of the overall plan to fix Social Security. But the requirement applies to the personal accounts to the extent that the combination of the personal account income and the traditional system would need to be put together to get you to the poverty level. Now, obviously, if you were -- if you already had enough in your traditional benefit to keep you above the poverty level, then you wouldn't have to worry about that. You could take out your money and spend it much more freely.

Many proposals out there actually increase the progressivity of the basis Social Security benefit. And so the consequence of a plan like that would be that people would not actually be obligated to annuitize that much of their personal account because a lot of that job would be done by the traditional system. If you had a plan, for example, that didn't do that, but balanced the system perhaps in a less progressive way, you might have people required to annuitize more of their personal account in order to reach that requirement. So it really depends on the specific design of the plan.

Q So, in some circumstances, people will have annuitize, literally buy an annuity somewhere?

SENIOR ADMINISTRATION OFFICIAL: Right. We think it's very important that people not be in a position where their personal account money is withdrawn and it have the effect of pushing people into poverty.

Q The other thing is, how are you going to treat inheritability? Are you going -- I know that's a complicated question, but can you just go over that quickly?

SENIOR ADMINISTRATION OFFICIAL: Well, we certainly are providing for inheritability. We specifically say that the money that is not annuitized can be left as an inheritance.

Q Just to clarify on one of the last points that you made. So if you annuitized at poverty level, and then you die early, does that money then go back to the federal government, they wouldn't be private annuities? And, also, just to follow up on one other thing, to make sure I understand -- the President's model two plan did provide for a very generous low-wage, above poverty level benefit. I don't know if you're prepared to say that the President is still supporting that. But if that were to take place, then that would mean millions and millions of low-wage workers, that various low-wage workers would not have to annuitize at all -- am I correct about that?

SENIOR ADMINISTRATION OFFICIAL: Well, not necessarily, because remember, there is the benefit offset for taking the account. So they might -- if they had taken the account, maybe they're starting out above, and then have to take the benefit offset for the account, and then they wind up having to annuitize that portion of the personal account that applies to that offset.

But you're right, I mean, if there is a provision like that, that actually gets people closer to the poverty line after that offset is applied, then you would have a situation where people would not have to annuitize as much of their personal account as someone might think.

Q But at death, what happens to the annuity? Does it go to the federal government?

SENIOR ADMINISTRATION OFFICIAL: The annuity part would not come back, obviously, but the rest could be inherited.

Q But it goes to the federal government. In other words, there were some people talking about insurance companies would provide these annuities or the private sector --

SENIOR ADMINISTRATION OFFICIAL: Well, basically, the way that we have outlined it, the federal government would do the purchasing of the annuity contracts, so it would still be sort of -- this would still be channeled through the federal government, the purchase of the annuity. People wouldn't be out there shopping on their own for a private sector annuity.

Q But if you bought it from an insurance company then, the insurance company would take the risk, but they would also get the account if somebody died early -- right? I mean, that's how it works?

SENIOR ADMINISTRATION OFFICIAL: Yes, exactly. And here in a sense, the federal government is sort of the intermediary in who is shouldering that risk. I mean, they're basically sort of making a collective purchase of annuities as -- but, obviously, the same economics apply, that if you buy an annuity and die early, obviously, that limits the amount that you've been able to pass on.

Q Can you just clarify whether or not this does address the "crisis," or is this -- are we correct in reporting if you say this is neutral and yet to be decided as to how you'll basically come up with the money to solve the "crisis"?

SENIOR ADMINISTRATION OFFICIAL: The President is going to talk about the need to take action to fix Social Security. We're not making representation that the personal accounts alone are fixing the system's finances.

Q Are they helping at all?

SENIOR ADMINISTRATION OFFICIAL: The personal accounts help in the sense that the personal accounts enable the worker to be better off in the context of a plan to fix Social Security. You could, in theory, fix Social Security finances without a personal account and then the worker would be far worse off than if you offered the personal account. So it's an important part of the overall plan to fix Social Security, because it's an important part of having a plan that, in the end, treats workers well.

When you consider going forward, what we're looking at, in terms of the gap between the system's promises and its ability to pay them, we could be in a very difficult situation in the 2020s or 2030s, with respect to keeping people out of poverty in old age. It's very important that the personal account be a component of the overall solution, because otherwise we're going to have much worse treatment for workers as the plan is fixed.

Q I wanted to follow up on this -- I'm confused. How could you calculate now, today, that two-thirds of those who potentially are eligible for the personal accounts would make the voluntary option to come into the accounts, if the President is also committed to making the existing Social Security system solvent, the way he says he's interested in doing? How can you even gather what choices they would make if you haven't --

SENIOR ADMINISTRATION OFFICIAL: Well, I would say a couple of things about that. The first is just the technical point that we don't, ourselves, develop the participation estimates -- the Social Security actuaries do. All of the estimates for Social Security's finances are independently generated and we have to operate with them as they are generated elsewhere. So one can question whether two-thirds is the right participation assumption; we think it's important for our purposes to submit to the independent scoring, and so we don't independently second-guess the participation assumptions.

The second question, though, is more with respect to the nature of the election. It's important to understand that no matter how Social Security is balanced, that the nature of the election facing the individual with the personal account is still the same. The nature of the personal account election is that if you, as a participant, are choosing the personal account, the way that decision impacts you is the same, regardless of what we do to fix the system. That election is specifically structured so that the exchange you're making for the personal account benefits is such that you will do better if your account does better than a 3 percent real rate of return. And that's by design and the nature of the personal account construction.

So, regardless of what the starting point is for your overall benefit, the specific trade-off that you're making in opting for a personal account is based on your decision that you think you can beat the 3 percent real rate of return. And regardless of where you're starting, that's still going to be the same decision facing you. So the participation assumption will be based on election that is not changing as a result of that.

Q Related to this, what are the opportunities for a worker who may opt in at 18 or 20 or 25, to then decide, based on circumstances, either their own or the market performance, that they want to opt out; and then maybe at 40 or 45, they say, oh, the market is doing better, or, my circumstances are different, I want to opt back in -- what happens?

SENIOR ADMINISTRATION OFFICIAL: Well, one of the things that it's important to remember about the nature of the election and the investment choices that we're giving people is that people can, in effect, sort of decide the degree to which they want to receive something like the Social Security defined benefit, or pursue a different rate of return through the investment in bond funds or stock funds. Let me give a specific example.

Suppose you had a person who opted for the personal account when they were young, and then they got buyer's remorse later when they were 30, and they decided, I don't really want the personal account. Well, at that point, they could just have the option of leaving all of their money invested entirely in the Treasury bonds because then, by definition, their benefit is not going to change relative to their promised Social Security benefit because the Treasury bond is earning a rate of interest that is exactly equal to the offset they're giving up for taking the personal account. So in other words, if you have someone who opts for the personal account, all they have to do to replicate their current traditional Social Security benefit is just to leave all their money in the Treasury bond fund. So this effectively gives people after they've chosen the accounts, the ability to decide whether or not they want to continue to make an investment choice that deviates from the Social Security system, or whether they just want to sort of replicate what Social Security would have given them. They'll have that choice throughout their lives.

Q So they can opt out?

SENIOR ADMINISTRATION OFFICIAL: Well, they can effectively opt out by just going all to Treasury bonds again.

Q What's the significance of permanence? That's been said about five times. Why is it so important to make a permanent solution? If they tried to do that in the 1930s when they set this up, we could have never anticipated all the changes in the economy that would have happened. We didn't have computers, we didn't know any of this stuff. Why do we have to do something now to take care of all time? And why is the President so insistent on that?

SENIOR ADMINISTRATION OFFICIAL: Well, that's a very good question. If you look back at the history of Social Security, you will see a history of frequent and recurring tax increases. The tax rate was 2 percent -- 1 percent employee, 1 percent employer -- when the system was created. It has had to be raised repeatedly, most recently up to 12.4 percent. If we were to do, say, a temporary fix, then 10, 20 years from now, we'd be right back in the same boat that we are now. In fact, in 1983, they did what was categorized as a 75-year fix. But if you look at the projections that took place since then, starting in 1983, the trustees found the system was insolvent again. And here in 2005, we're facing an actuarial deficit that is about as big as they faced in 1983.

If we were to confine ourselves to a temporary fix, then 20 years from now people would be looking at a deficit just as big as we're looking now. And they'd be looking at a lot of tough choices all over again, except they'd be in a much worse position because the cost of the system would be much higher than they are now. So if we want to break the cycle of perpetual tax increases and handing larger and larger unfunded obligations off to future generations, we need to put the program on a permanently sustainable course.

Q Can you just explain what looks like will be a massive federal government fund management -- how it has to be run, how many people would it take to run, and how will the fund allocations be farmed out presumably into the markets and on to Wall Street?

SENIOR ADMINISTRATION OFFICIAL: Again, I would just point you to the basic model of the thrift savings plan. The way that it works is that the board of the -- the Federal Thrift Board contracts out -- they put the management of the individual funds up for bid. And there's a competitive bidding process for the ability to manage the different funds. So there are a couple of elements in that that are very important.

If you go back to the debate over the thrift savings plan, you find that a key element of the decision to create the thrift savings plan model was the idea that the accounts would be individually owned, and the fiduciary responsibility of the board was to the individual account holders. This was an important element of preventing the sorts of political interference that you would see potentially if the government just took the Social Security trust fund and started steering it into the stock market itself. So part and parcel of that is creating a system of individual accounts with individual property rights and fiduciary responsibility to individual account holders.

With respect to the actual fund management, that actually would not be done by the federal government. You wouldn't have the federal government managing the funds, but the federal government would be contracting out, and private fund managers would be doing that.

Q Do you have a sense of how much money would be going into the stock market?

Q -- they would then be doing that at less than a 30-basis point return? They would have to be presumably bidding in at a 15-, 20-basis point return?

SENIOR ADMINISTRATION OFFICIAL: Much, much less than that. Much less. When you consider the TSP, for example, their total cost is six to eight basis points for the whole system, and the fund-management element of that is a small minority of that amount. It's not -- I can't give you a precise figure on that, but it's much smaller even than the thrift savings plan administrative costs. There's no reason to believe that the fund management fees for a system like this would be any higher. The increase from six basis points to 30 basis points is exclusively because of the record-keeping duties of the federal government, keeping track of the accounts of everyone, all over America.

Q My question is about progressivity. The Social Security system -- progressivity in it for lower-income workers now. I take it from what you've said -- and correct me if I'm wrong -- there would really be no progressivity on the personal savings account end of this. You're not going to offer matching benefits like a 401(k), or anything that would help poorer workers.

SENIOR ADMINISTRATION OFFICIAL: I wouldn't -- first of all, I do think you'll hear, or at least see later today, a commitment to maintaining the progressivity of the current Social Security system. There's a couple of different ways you can do that. You could have personal accounts that, in and of themselves, are not progressive, but coupled with changes to the traditional system that vastly increase its progressivity. And there are many proposals that do that. You look at something like Kolbe-Boyd, or some of the Commission plans, or Lindsey Graham's plan, they make a number of changes to the traditional system to make it more progressive.

But having said that, the accounts that I just described are actually funded in a progressive manner, at least in the phase-in period that I described. An account that is a 4 percent account, up to a cap of $1,000, is actually a very progressive account. Only people at $25,000 of income and below would actually be getting the full 4 percent. Anyone at $25,000 or above in the first year would actually have less than a 4 percent account. So there is a progressive funding mechanism in the early years of this program.

Q But no minimum benefit guarantee. That dropped out since model two?

SENIOR ADMINISTRATION OFFICIAL: Well, you're -- that's a reference to specific provisions on the traditional side. And we aren't at that stage yet. But we're not saying yes or no to anything like that. We are saying that overall, we want a system that is as progressive as the current system.

Q Will the cap keep going up by $100 each year?

SENIOR ADMINISTRATION OFFICIAL: Basically, it's -- obviously, it's our goal ultimately all workers be able to have 4 percent accounts. The details of that, obviously, would be subject to the details of a comprehensive 75-year look at the program.

Q What would be the tax treatment of the accounts?

SENIOR ADMINISTRATION OFFICIAL: Boy, getting all these good, technical questions.

MS. BUCHAN: That will be our last one.

Q No, it won't. (Laughter.)

Q That is going to be subject to capital gains taxes all through their lifetime?

SENIOR ADMINISTRATION OFFICIAL: Well, what we have been assuming in all of our modeling runs is that the taxation of Social Security benefits, whether from the traditional system or from the personal account system, would not change. But that's, obviously, that's a policy decision that extends beyond the 10 years that we're looking at right now. And that's really the withdrawal phase from the accounts.

Q But is it fair to say that when everybody wakes up tomorrow morning, the President is not going to have given them an answer tonight about the $3.7 trillion shortfall, and that presumably, since he's ruled out higher taxes, that the deal that he goes along with is going to have to come up with $3.7 trillion worth of benefit cuts?

SENIOR ADMINISTRATION OFFICIAL: Well, I'm not sure I would categorize it that way. First of all, the current system is promising benefits that are much, much higher in real terms than the future is now. So we can certainly say that no one's benefits today need to be changed; no one near retirement, their benefits don't need to be changed; and people in the future can get benefits that are at least as high as people are getting today. Beyond that, we're leaving it open to discussions with Congress as to how to fill that $3.7 trillion -- actually, what we think is a $10.4 trillion hole.

END 4:00 P.M. EST