CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 13, 2005

H.R. 3304
Growing Real Ownership for Workers Act of 2005

As introduced on July 14, 2005

SUMMARY

H.R. 3304, the Growing Real Ownership for Workers (GROW) Act, would create individual retirement accounts for almost 200 million workers over the next decade. The nearly $1 trillion in federal funds transferred to those accounts would equal the surplus, excluding interest, accumulating in the Social Security trust funds over that time, but the money would come from the general funds of the government. While the federal government would administer the GROW program, account holders would make key decisions about investment choices and distributions from the accounts; accordingly, CBO treats the accounts as belonging to the workers. A few owners would begin tapping their accounts late in the period, resulting in small offsets (and resulting budgetary savings) against traditional Social Security benefits. On balance, CBO estimates that H.R. 3304 would increase direct spending by $988 billion over the 2007-2015 period.

H.R. 3304 would permit the government to charge 30 basis points (that is, 0.3 percent of balances) for managing the accounts, and would authorize future appropriations for any administrative costs that exceed those levies. Assuming appropriation of the necessary amounts, CBO estimates the resulting outlays at $8.3 billion over the 2006-2015 period.

Section 4 of the Unfunded Mandates Reform Act excludes from the provisions of that act any provision in a bill that relates to the Old Age, Survivors and Disability Insurance program under title II of the Social Security Act. CBO reviewed title I of H.R. 3304 and determined that it fits within that exclusion. The Joint Committee on Taxation has preliminarily determined that the tax provisions (title II) of H.R. 3304 contain no private- sector or intergovernmental mandates.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3304 is shown in Table 1. For this estimate, CBO assumes enactment in fall 2005. The costs of this legislation fall in budget function 650 (Social Security).

TABLE 1. ESTIMATED COSTS OF H.R. 3304, THE GROWING REAL OWNERSHIP FOR WORKERS ACT OF 2005

	Budget Authority and Outlays, by Fiscal Year, in Billions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
DIRECT SPENDING										
Payments to interim account	65.8	98.1	107.1	111.8	114.2	114.7	110.7	103.6	94.1	81.6
Receipts by interim account	-65.8	-98.1	-107.1	-111.8	-114.2	-114.7	-110.7	-103.6	-94.1	-81.6
Transfers to GROW accounts	0	95.3	105.8	114.2	118.6	120.6	119.9	114.9	106.8	96.0
OASDI benefit offsets [a]	0	0	0	0	*	*	-0.2	-0.6	-1.4	-2.5
Total	0	95.3	105.8	114.2	118.6	120.6	119.8	114.3	105.4	93.5
On-budget	0	95.3	105.8	114.2	118.6	120.6	119.9	114.9	106.8	96.0
Off-budget	0	0	0	0	*	*	-0.2	-0.6	-1.4	-2.5
SPENDING SUBJECT TO APPROPRIATION										
Administrative costs [b]	0.5	1.7	0.5	0.2	1.4	1.2	1.0	0.8	0.6	0.4

NOTE: OASDI=Old-Age Survivors, and Disability.
*=less than $50 million

a. Off-budget
b. Includes startup costs plus that portion of ongoing costs not recouped from maximum 30-basis-point charge on account assets

BASIS OF ESTIMATE

The budgetary effects of H.R. 3304 are dominated by the nearly $1 trillion in contributions that the government would make to GROW accounts in the 2007-2015 period. Enacting the bill would also increase discretionary spending by about $8 billion over that period, assuming appropriation of the authorized amounts.

Direct Spending

H.R. 3304 would establish individual accounts for all workers born in 1950 or later who have earnings covered by Social Security after 2005. Total contributions to the accounts would

equal Social Security payroll taxes plus income taxes on benefits minus disbursements from the trust funds—essentially, the program's surplus excluding interest earnings (often called its "cash surplus").[1] The government would divide that aggregate in proportion to the participants' earnings that are subject to Social Security taxes. Workers born in 1950 or later would be automatically enrolled unless they opted out; CBO assumed that all eligible workers would participate. Although the total contribution would equal the Social Security cash surplus, the actual transfer would come from the general fund of the Treasury, not from the Old-Age, Survivors, and Disability Insurance (OASDI) trust funds. Contributions would continue until the Social Security cash surplus disappears, which CBO projects will occur around 2020. The accounts would have no other source of contributions.

For the first two years, accounts could only be invested in marketable Treasury securities. But early in 2009, the newly established GROW Accounts Board would report to the Congress with recommendations for a menu of investment options. CBO assumes those choices would resemble the offerings in the Thrift Savings Plan (TSP), the voluntary savings program for federal employees. The Board's recommendations would take effect automatically in 90 days unless the Congress overturned them. Under H.R. 3304, workers could alter the investment mix in their GROW accounts once a year.

Distributions from GROW accounts could start when the worker qualified for Social Security as a retired worker or spouse age 62 or older, or as a widow(er) age 60 or older. (Contributions to the accounts would also cease then, even if the worker had subsequent earnings.) Generally, owners would have to withdraw money in the form of an inflation-indexed annuity until the combination of that annuity plus traditional Social Security equaled the federal poverty line. Married owners would have to purchase a joint-and-survivor annuity unless both spouses waived that choice. Regardless of the actual form of distribution, H.R. 3304 would reduce the traditional Social Security benefit by an imputed or "notional" annuity—the hypothetical annuity if the owner had always invested in Treasury securities. Thus, besides choosing an investment mix, account owners could—within limits—choose their distribution method; they could also name a beneficiary in case they died before retirement. Furthermore, workers could refuse to participate in the accounts (although CBO assumes hardly any would do so). Based on those features, CBO concludes that the accounts would not be the property of the government but would be individually-owned; therefore, the government's contributions would constitute outlays in the federal budget.[2]

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1. Disbursements include Social Security benefit payments, administrative costs, and the transfer to the railroad retirement program.

2. Congressional Budget Office, *The Budgetary Treatment of Personal Retirement Accounts*, CBO Paper (March 2000).

Although transfers would start in January 2006, credits would first be assigned to individual GROW owners in 2007. That is because H.R. 3304 accommodates the system of annual wage reporting of the Social Security Administration (SSA) and the Internal Revenue Service (IRS). By law, employers send taxes withheld from workers' paychecks—both income and employment taxes—regularly throughout the year, but not until early in the following year do they submit the W-2 forms that allow employees to file their taxes and the IRS to link earnings to particular workers. Thus, H.R. 3304 specifies that, effective in 2006, the Treasury would track Social Security's cash surplus and make transfers at least once a month from the general fund to an "interim fund." The amounts would remain there until SSA tallies the annual wage reports and thus has enough information to divide the past year's transfer among eligible workers. Recognizing that delay, credits to particular workers' accounts would include interest computed from the previous July, or about a year's worth. CBO regards the interim fund—unlike the GROW accounts themselves—as part of the government; transfers to it would be intrabudgetary transactions. Based on its projections of Social Security finances, CBO estimates $1,002 billion in transfers to the interim account over the 2006-2015 period. The one-year lag in crediting would be largely offset by adding interest to those transfers, resulting in an estimated $992 billion in GROW deposits (see Table 2).

The government would establish GROW accounts on behalf of workers born in 1950 or later—that is, age 56 or younger at the program's start. The oldest accountholders would thus reach age 62—and eligibility for early-retirement benefits—in 2012. Their Social Security benefits would be reduced by the imputed annuities from their GROW accounts. With just a few years' worth of GROW contributions—and with annuities spread over a remaining life expectancy of about 20 years—the resulting offsets during this period would be small. CBO estimates that such offsets would generate $0.2 billion in savings in 2012, growing to $2.5 billion in 2015.

Those benefit offsets would be the only direct effect on Social Security from H.R. 3304. Because transfers to GROW accounts would come from the general fund of the government, Social Security finances would be otherwise unaffected. The program's methods of collecting payroll taxes, investing excess funds in special Treasury securities, and paying benefits would not change, except for the extra step of subtracting a benefit offset for an eligible GROW accountholder. Over the very long run (as discussed in CBO's companion analysis), those benefit offsets mount and permit the program a few more years of scheduled benefit payouts before trust fund exhaustion. That result is made possible by general-fund transfers—not to Social Security directly, but to the individual accounts of eligible workers.

TABLE 2. CBO BASELINE PROJECTIONS OF THE SOCIAL SECURITY TRUST FUND AND RESULTING TRANSFERS TO GROW ACCOUNTS UNDER H.R. 3304

	By Fiscal Year, in Billions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
SOCIAL SECURITY TRUST FUNDS [a]										
Income excluding interest	632.6	668.1	705.0	742.1	779.8	818.5	857.6	897.3	937.9	979.4
Disbursements	544.9	570.1	597.9	630.3	665.6	703.9	746.9	793.6	843.8	897.8
Surplus excluding interest	87.7	98.1	107.1	111.8	114.2	114.7	110.7	103.6	94.1	81.6
RESULTING TRANSFERS UNDER H.R. 3304										
Payments to interim account [b]	65.8	98.1	107.1	111.8	114.2	114.7	110.7	103.6	94.1	81.6
Receipts by interim account	-65.8	-98.1	-107.1	-111.8	-114.2	-114.7	-110.7	-103.6	-94.1	-81.6
Payments to GROW accounts [c]	0	95.3	105.8	114.2	118.6	120.6	119.9	114.9	106.8	96.0

a. CBO baseline projections, March 2005. See Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2006* (March 2005).

b. H.R. 3304 would be effective in January 2006, when one-fourth of fiscal year 2006 is already past.

c. Transfers to GROW accounts would equal the previous calendar (not fiscal) year's Social Security cash surplus, plus imputed interest from July 1.

Revenues

Accountholders' withdrawals from GROW accounts would be taxed in the same way as Social Security benefits are. Because CBO assumes that those withdrawals would generate equal and offsetting reductions in Social Security benefits, H.R. 3304 would result in no change in income-tax receipts.

Spending Subject to Appropriation

GROW accounts would be administered by a seven-member board, appointed by the President in consultation with the Congress; the board would hire an executive director and other staff. H.R. 3304 would authorize such sums as necessary (subject to future appropriation) for startup costs—that is, expenses incurred before any accounts exist. Once accounts are operational, H.R. 3304 would permit the board to charge up to 30 basis points (0.3 percentage points) of assets annually to pay for administrative costs. The bill would authorize future appropriations for any such expenses that exceed the resulting charges.

In a 2001 report, SSA estimated startup costs at $1.2 billion to $2.3 billion for low- and high-service variants, respectively.[3] Choosing the low end of that range—because H.R. 3304 clearly envisions few optional features—and updating for inflation leads CBO to include $1.5 billion for those initial costs.

In analyzing the ongoing administrative costs of the GROW program, CBO sought to identify an appropriate dollar cost per account. Certain tasks involved in running defined-contribution plans or any individual investment account do not vary much with the accounts' size. In key respects, it costs about as much to manage a small account as it does a large one. (That is why many private fund managers require a minimum deposit from new investors.)

CBO's 2004 survey found estimates ranging from $24 to $103 for private defined-contribution plans and their federal counterpart, the TSP.[4] SSA's study implied costs per account ranging from $5 to $19 (in 1999 dollars) for a no-frills system and a high-service plan, respectively.

H.R. 3304 stipulates many features that would clearly limit the administrative costs of GROW accounts. Credits would be posted just once a year, as an adjunct to SSA's usual earnings-processing activities; that contrasts with biweekly crediting under the TSP and similar plans. All investments would be held in Treasury securities until 2009. After that, owners would pick from a limited menu and could reallocate funds once a year. Account holders would receive annual reports on their portfolio, mailed with the statements that SSA sends automatically to most workers.[5]

Even with those features, administrative costs would likely exceed the 30-basis-point target. CBO estimates, for example, that the first credits in 2007 would total $95 billion for 139 million accounts—roughly $700 for the average account. Charging 30 basis points would yield just $2 from such an account.

CBO estimates that administrative costs would average $7 to $8 per account in the program's first three years, before a full investment menu is offered. That figure slightly exceeds SSA's lower estimate, because it incorporates inflation and wage growth since 1999 and also recognizes that the board would be an independent entity, not part of SSA. (As such, it could

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3. Lawrence E. Hart and others, *SSA's Estimates of Administrative Costs Under A Centralized System of Individual Accounts* (Social Security Administration, January 2001; available on-line at http://www.ssa.gov/policy/docs/research/rr2000-01rev.pdf).

4. Congressional Budget Office, *Administrative Costs of Private Accounts in Social Security*, CBO Study (March 2004).

5. People age 25 and older who have earnings and do not receive Social Security benefits get such a statement, at their last known address, about 3 months before their birthday. People under age 25 do not get such statements except upon request.

face certain overhead expenses that it would not incur as part of a larger agency.) Customer-service tasks in those early years might consist chiefly of processing beneficiary designations, sending initial account statements, and answering the resulting queries. The workload would expand when the board unveiled more investment options in mid-2009. At that point, CBO estimates the average administrative cost would rise to about $17.

Multiplying those unit costs by the number of GROW accounts yields ongoing administrative costs of about $1 billion annually from 2007 through 2009, and $3 billion to $4 billion thereafter. CBO estimates that the 30 basis point charge would bring in amounts that rise from $0.3 billion in 2007 to $3.5 billion in 2015. The remainder would be paid by the government. Overall, the government would pay an estimated $6.8 billion over the ten-year period for ongoing administrative costs not charged to accounts (see Table 3).

TABLE 3. ESTIMATED ADMINISTRATIVE COSTS SUBJECT TO APPROPRIATION UNDER H.R. 3304

	By Fiscal Year, in Billions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Startup costs	0.5	1.0	*	0	0	0	0	0	0	0
Ongoing costs:										
Total cost	n.a.	1.0	1.1	1.2	2.8	3.0	3.2	3.4	3.6	3.9
Minus: 30-basis-point charge	n.a.	-0.3	-0.6	-1.0	-1.3	-1.8	-2.2	-2.6	-3.1	-3.5
Remainder (paid by government)	n.a.	0.7	0.5	0.2	1.4	1.2	1.0	0.8	0.6	0.4
Total administrative costs paid by government	0.5	1.7	0.5	0.2	1.4	1.2	1.0	0.8	0.6	0.4
Memorandum:										
Number of accounts (millions)	n.a.	139	148	157	165	171	177	183	187	190
Cost per account (dollars)	n.a.	7.0	7.3	7.6	16.8	17.5	18.1	18.8	19.5	20.3

NOTES: *=less than $50 million; n.a.=not applicable.

EFFECTS ON ON-BUDGET DIRECT SPENDING AND REVENUES

The Congressional Budget Act labels Social Security "off-budget" and excludes it from the President's budget, the House and Senate budget resolutions, and the requirements of the

Balanced Budget and Emergency Deficit Control Act of 1985. The net changes in governmental receipts and outlays from direct spending—excluding Social Security—over the 2006-2015 period are shown in the following table.

	By Fiscal Year, in Billions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Changes in Outlays	0	95.3	105.8	114.2	118.6	120.6	119.9	114.9	106.8	96.0
Changes in Revenues	0	0	0	0	0	0	0	0	0	0

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

Section 4 of the Unfunded Mandates Reform Act excludes from the provisions of that act any provision in a bill that relates to the Old Age, Survivors and Disability Insurance program under title II of the Social Security Act. CBO reviewed title I of H.R. 3304 and determined that it fits within that exclusion. The Joint Committee on Taxation has preliminarily determined that the tax provisions (title II) of H.R. 3304 contain no private-sector or intergovernmental mandates.

COMPARISON TO OTHER ESTIMATES

SSA's Office of the Chief Actuary (OCACT) has analyzed the plan that was later introduced as H.R. 3304.[6] Under the actuaries' assumptions—which are consistent with the 2005 Trustees' report—transfers to GROW accounts would be smaller than under CBO's. However, that difference is hard to discern directly from the actuaries' memo, which follows a different format:

- OCACT shows dollar flows by calendar year, not fiscal year.
- The actuaries depict flows in constant 2005 dollars (adjusted for inflation) or in present value terms (2005 dollars, adjusted for interest rates)—not in nominal dollars, as in this CBO analysis.
- The actuaries show contributions as if they went directly to GROW accounts, omitting the lag in crediting contributions and the associated creation of an interim account.

6. The actuaries' analysis is available on-line at www.ssa.gov/OACT/solvency/McCrery_20050715.pdf.

To permit a comparison of the estimates, CBO has put the two agencies' numbers on a similar footing. That comparison shows that CBO's estimate of the amounts transferred to the interim account over the 2006-2015 period is approximately $228 billion higher than the estimate under Trustees' assumptions (see Table 4).

TABLE 4. COMPARISON OF SOCIAL SECURITY "CASH SURPLUS" UNDER CBO AND TRUSTEES' ASSUMPTIONS

	By Fiscal Year, in Billions of Dollars										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2015
SOCIAL SECURITY TRUSTEES											
Income [a]	628	660	694	727	766	808	845	885	925	968	7,905
Disbursements	543	567	597	634	672	715	763	815	872	932	7,110
Surplus [a]	85	92	96	93	94	93	83	70	53	36	795
Transfers [b]	64	92	96	93	94	93	83	70	53	36	774
CONGRESSIONAL BUDGET OFFICE											
Income [a]	633	668	705	742	780	819	858	897	938	979	8,018
Disbursements	545	570	598	630	666	704	747	794	844	898	6,995
Surplus [a]	88	98	107	112	114	115	111	104	94	82	1,024
Transfers [b]	66	98	107	112	114	115	111	104	94	82	1,002
DIFFERENCE											
Income [a]	5	8	11	16	13	11	12	12	13	11	114
Disbursements	2	3	1	-3	-7	-11	-16	-22	-28	-34	-115
Surplus [a]	3	6	11	19	20	21	28	34	41	46	228
Transfers [b]	2	6	11	19	20	21	28	34	41	46	228

SOURCE: Calculated by CBO from its March 2005 baseline and from *The 2005 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (the "Trustees' report"). Through 2014, data from Tables VI.C4, VI.C5, VI.C6 of Trustees' report. For 2015, fiscal year data imputed by CBO from calendar-year estimates at http://www.ssa.gov/OACT/TR/TF05/lrIndex.html.

a. Excluding interest.

b. Because H.R. 3304 would take effect in January 2006, with one-fourth of the fiscal year already past, transfers to the interim account are assumed to equal the 2007-2015 surplus plus three-fourths of the 2006 figure.

Over the 10-year period, half of the difference between the two agencies' estimates stems from differing projections of OASDI income and half from differences in projected disbursements. The gap in trust fund income represents a small fraction (1 percent to 2 percent) of income in all years after 2006, and CBO ascribes that wedge chiefly to various technical differences in estimating methods. The two agencies' assumptions about key

economic variables—labor force growth and the average nominal wage—that underpin revenue growth are very similar. Differences in disbursements stem overwhelmingly from CBO's assumptions about cost-of-living adjustments (COLAs). For most of the period, CBO assumes COLAs of 2.2 percent annually, in contrast with the 2.7 percent to 2.8 percent used by the actuaries. Other differences that affect trust fund disbursements, such as caseload assumptions, have little net impact.

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