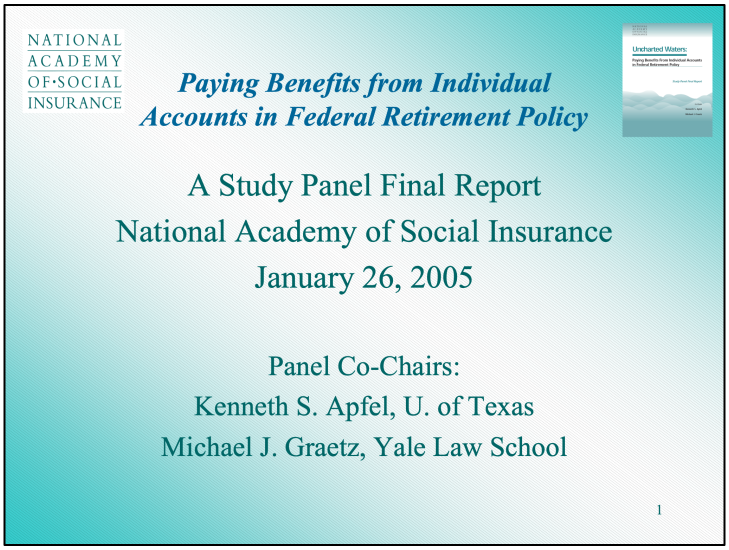
Slide 1



Any new system of universally available individual accounts requires answers to three broad questions: How will money get into these accounts? How will the funds be invested and managed? How will workers and their families get payments from these accounts?

Questions surrounding the "payout" phase — how people would receive their funds after retirement or in case of death or disability—have often been neglected. This Study Panel report examines these largely unexplored issues in depth.

We have an extremely talented Panel of more than two dozen knowledgeable, energetic and politically diverse experts to tackle these questions. The list of Panel members and their bios are in your folders. I would like to introduce the panel members and ask them to stand and be recognized.

Lily Batchelder, Assistant Professor of Law and Public Policy, NYU School of Law
Ray Boshara, Director, Asset Building Program, New America Foundation
Jeffrey Brown, Assistant Professor of Finance, University of Illinois at Urbana-Champaign
Craig Copeland, Senior Research Associate, Employee Benefit Research Institute
Douglas Elliott, President, Center on Federal Financial Institutions
Joan Entmacher, Vice-President and Director of Family Economic Security,

National Women's Law Center
Martha E. Ford, Director of Legal Advocacy, The Arc of the United States and United Cerebral Palsy
Douglas Fore, Director of Portfolio Analystics, TIAA-CREF Investment Management
Fred Goldberg, Attorney, Skadden, Arps, Slate, Meagher & Flom LLP
Stephen C. Goss, Chief Actuary, Social Security Administration
Karen C. Holden, Professor of Public Affairs & Consumer Science, University of Wisconsin
J. Mark Iwry, Non-resident Senior Fellow, The Brookings Institution
Howell Jackson, James S. Reid Jr., Professor of Law, Harvard Law School
Charles A. Jones, Director of Reengineering, Michigan Family Independence Agency
Kilolo Kijakazi, Program Officer, Ford Foundation
John H. Langbein, Sterling Professor of Law and Legal History, Yale Law School
Maya MacGuineas, Director, Fiscal Policy Program & Retirement Security Program, New America Foundation
Lisa Mensah, Executive Director, Initiative of Financial Security, The Aspen Institute
Peter Orszag, Joseph A. Pechman Senior Fellow, Economic Studies, The Brookings Institution
Pamela Perun, Affiliated Scholar at The Urban Institute
Eric Rodriguez, Director, Economic Mobility Initiative, National Council of La Raza
Jane Ross, Director, Center for Social and Economic Studies, National Research Council
Dallas L. Salisbury, President, Employee Benefit Research Institute
Bruce Schobel, Vice-President and Actuary, New York Life Insurance Company
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The project received financial support from the Ford Foundation, The Actuarial Foundation, and the TIAA-CREF Institute.

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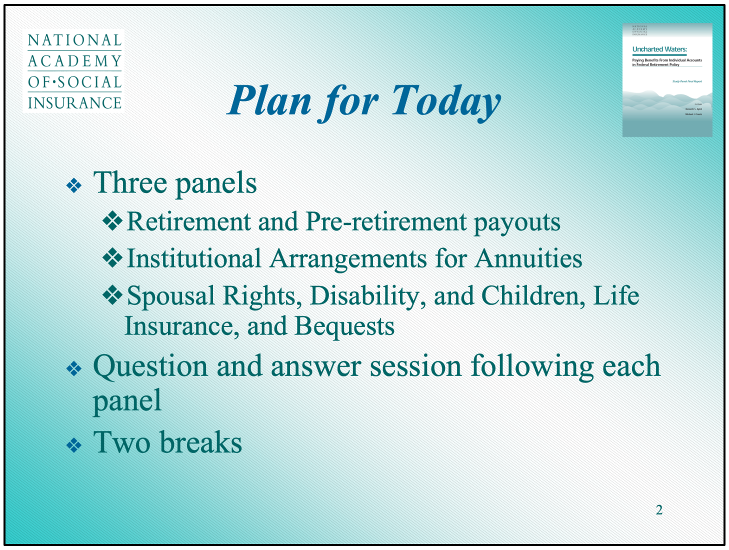

Panel One -- Retirement and Pre-Retirement
Financial demographics – Lisa
Retirement payouts – Jeff
Married couples and annuities – Karen
Worker-specific offsets – Goss
Pre-Retirement access – Peter

Institutional Arrangements for Annuities
Overview – Howell
Private provision – Doug Elliott
Tax treatment – Lily

Spousal Rights, Disability, Life Insurance Children
Overview – Kilolo
Spousal rights – Joan
Disability – Marty
Children – Maya
Wrap-up - Maya

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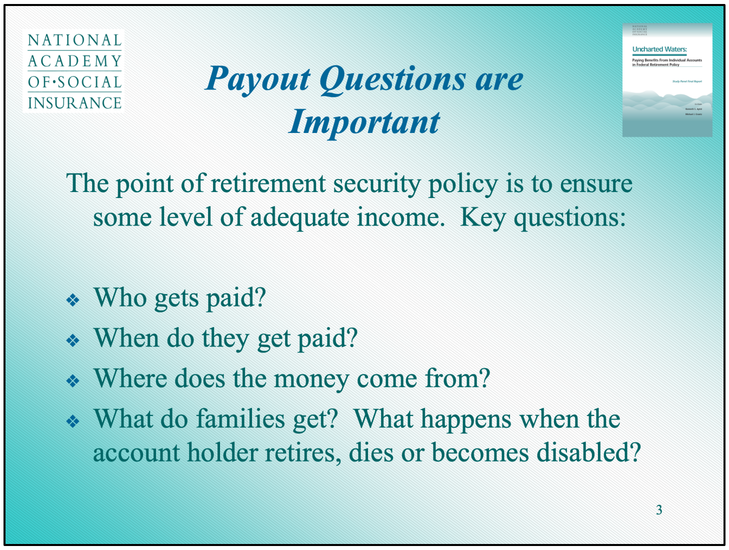

Payouts are important because a central goal of retirement security policy is to assure some level of adequate income. Our report examines such questions as:

Will retirees be allowed to take lump sums when they retire, or will they be required to buy life annuities that promise monthly payments for life?

Will people be allowed to withdraw funds or borrow against their accounts before retirement age, as they can now with 401(k) savings plans? Do these answers change if the worker becomes disabled or dies before retirement?

What rights does a spouse or former spouse have to the accounts? Will accounts be divisible property at divorce? Will spousal rights be decided in federal law or by family law that differs from state to state?

Can creditors reach the accounts? Will accountholders have to spend the accounts in order to get Medicaid or other means-tested benefits?

What institutions – government or private – will be responsible for making payments from the accounts? If private institutions are responsible, will federal or state government regulate their conduct and ensure their solvency? Insurance companies today provide private life annuities and states guarantee their solvency.

If these accounts are part of Social Security, how will they affect payouts of Social Security benefits for retirees, disabled workers and families of workers who die?

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Owning and controlling property is the mainstay of a capitalist economy. Individual are encouraged to own property – land, buildings, financial resources, or other types of assets – not only to stimulate economic well being but also to help raise one's standard of living.

Property ownership is essentially a bundle of rights created by law. Individual ownership generally implies control of the owned asset (and to exclude others' rights to that asset), and ownership grants the holder wide discretion in asset consumption. However, these rights may be limited by the nature of the property right, by regulations, spousal rights, creditors' claims, or when owner rights would reduce or infringe on the rights and security of others.

Property ownership carries with it a certain amount of risk. The assumption of risk is a key component of a capitalist ownership system, with greater rewards generally related to greater risk. Property owners can buy private insurance for some types of property risks, such as fires or theft, but some economic security risks, such as becoming disabled or living to very old age, are less commonly insured in the private market.

Social insurance emerges, in part, as a response to market failure in private insurance. Other rationales for social insurance build on the notion that a competitive economy sometimes fails to provide for all individuals, exposing them to risks outside their control and not commonly insured by the private market. Some workers earn low wages over their entire work careers and cannot save adequately for retirement, while others face circumstances that significantly derail their ability to save. A prolonged period of involuntary unemployment, sickness, or incapacity can deplete whatever savings have been set aside for the future. Social insurance, through universal participation, pools risks broadly to provide a basic level of economic security.

Social insurance has played an important role in many nations by protecting individuals from risks inherent in competitive economies. In the United States, social insurance programs compensate workers who are laid-off from their jobs or are injured on the job Social Security, the nation's largest social insurance program, provides workers and families with benefits in retirement as well as protections against economic insecurity due to prolonged disability or the death of a family worker. Social Security benefits are closely tied to work and past wages from which contributions were paid.

Individual accounts are typically considered to be personal property, while the traditional Social Security program is social insurance. Both property and social insurance are important components of retirement security; each has particular strengths, but they differ in important respects.

Purpose. A 401(k)-type savings plan gives workers a chance to save for retirement on a tax-favored basis. Social Security provides a basic wage-replacement income for almost all American workers and their spouses and widowed spouses. Social Security also provides basic insurance protection when families lose wage income due to the disability or the death of a worker.

Relation of contributions and payments. 401(k)-type holders get out what was put in, plus investment returns, minus administrative costs. Social Security pays more relative to contributions to: (a) low earners; (b) some widowed and divorced spouses, who receive benefits without paying more; (c) disabled workers and young families of deceased workers, who have disability and life insurance protection; (d) larger families, because benefits are paid for children without paying more; and (e) people who live a long time have the guarantee of inflation-indexed benefits that last for life. Groups who receive less relative to past wages and contributions have the opposite characteristics: higher earners, dual-earner couples, single workers, childless workers, and those who die early without family members eligible for survivor benefits.

Choice. While 401(k)s offer broad choice in payouts, Social Security offers little or none.

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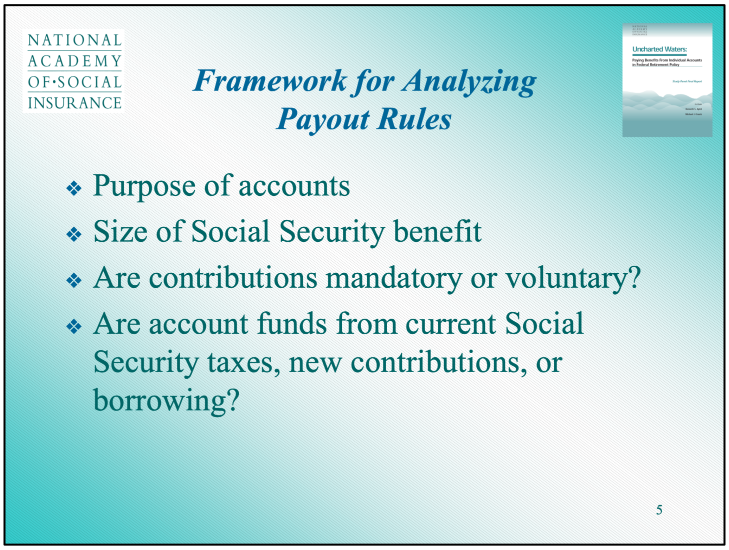

The Panel believe that policymakers' decisions about payout rules for any new system of individual accounts will differ depending on: the intended use of the accounts; the level of traditional Social Security benefits that accompany the accounts; the source of funds for the accounts; and whether participation in the accounts is mandatory or voluntary.

If the main purpose of the accounts is to provide basic security in retirement, then payout rules might aim to resemble features of Social Security, calling for payments for life, family protection, and inflation indexing. On the other hand, if the main purpose is to help build financial wealth, then payout rules might resemble rules in other savings, such as IRAs or 401(k) plans. And, if the main purpose is to build funds to invest in human capital or business enterprise before retirement, then payouts would be designed to target these purposes.

If Social Security is thought to meet basic adequacy goals, more discretion in payouts from individual accounts might be called for. But if the account funds are viewed as an integral part of basic Social Security protection, more restrictions on payouts might be called for.

If policymakers want to encourage contributions, flexible payout choices may be needed. Restrictive payout rules could discourage participation in voluntary accounts.

If current Social Security taxes are used for accounts, there might be a stronger case for having payouts provide some of the protections of Social Security. Yet, if accounts are funded with new contributions from workers, more choices in payouts might be in order. Tax treatment of payouts might differ depending on the source of the funds.

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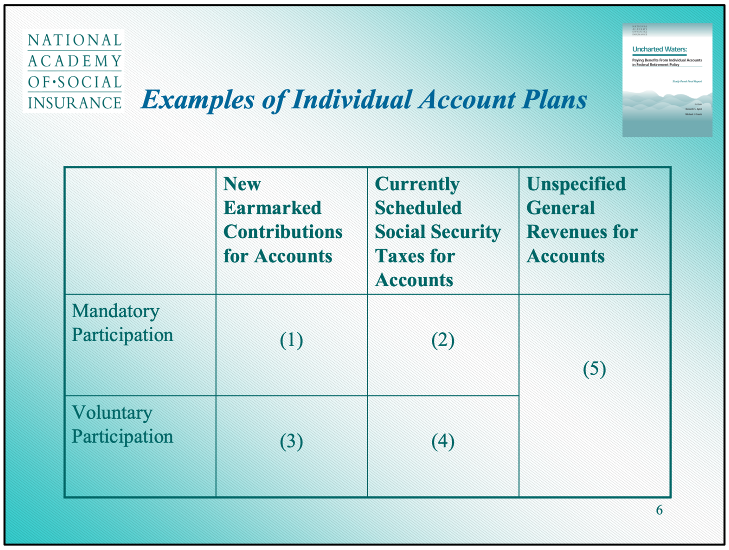

Different kinds of individual accounts have been proposed for different purposes and they could be grouped by any number of criteria depending on the scope of the discussion. For some of its deliberations, the panel found it useful to classify proposals along two dimensions: whether contributions to accounts would be mandatory or voluntary, and whether the accounts would be funded with new earmarked contributions from workers, or by using currently scheduled Social Security taxes, or by some other means, such as general revenues.

The Panel also agreed that when discussing payouts from individual accounts, a key issue is whether proceeds from the accounts are meant to replace part of traditional Social Security retirement benefits or are intended to provide new retirement resources. This distinction also emerges in this grid.

In general, individual account plans that fit into categories 1, 2, and 4 consider the proceeds from the individual accounts as part of Social Security benefits; only plans that fit category 3—voluntary participation with new earmarked contributions for the accounts—view the accounts as being separate from Social Security and its financing.

Panel members hold very different views about how to analyze plans that rely on unspecified general revenue transfers. The disagreement centers largely on whether the need for large general revenue transfers would result in pressure to further reduce traditional social Security benefits, or whether the funding for such transfers could be accommodated from other sources, such as income taxes, reduced spending on other programs, or from an increase in public debt.

While the Panel did not evaluate Social Security solvency, Panel members agreed that the long-range shortfall in Social Security finances was an important backdrop for our deliberations. Social Security retired-worker, disability, and survivor benefits are financed mainly by earmarked Social Security taxes. Currently the Social Security trust funds take in more in revenues than are paid in benefits. The reserves were $1.5 trillion at the end of 2003.

The Social Security Trustees project that tax revenue flowing into the trust funds will exceed outgo until 2018, under their intermediate, or best estimate, assumptions. Through the redemption of Treasury bonds plus Social Security tax revenue and interest income, scheduled Social Security benefits can be paid in full until 2042, at which time the trust funds are projected to be depleted. If no changes are made to the program, taxes coming into Social Security are expected to cover about 73 percent of the scheduled benefits.

This Panel's charge was not to recommend ways to achieve balance in Social Security. Rather, our purpose was to help policymakers think through payout issues that arise in various type of proposals that would introduce individual accounts as part of Social

Security. We also consider payout issues that might arise if a new system of individual accounts were set up separate from Social Security.

Given this Panel's focus on payout issues as opposed to the restoration of solvency to Social Security, we distinguish between reductions in scheduled defined benefits designed solely to help achieve solvency, and other reductions in traditional defined benefits that flow from decisions to shift part of currently scheduled Social Security taxes to personal accounts. These latter reductions are called "offsets."

Many of the plans that use scheduled Social Security taxes or general revenues to fund the accounts call for reductions in scheduled benefits for the purpose of putting Social Security in long-run financial balance. These benefit reductions take many forms and the reductions could apply to all beneficiaries (for example, by reducing scheduled benefits across the board) or they could target particular subsets of beneficiaries, such as early retirees, high earners, dependent spouses, children, and so forth.

Plans that shift scheduled Social Security taxes to individual accounts typically call for further changes in scheduled benefits to accommodate, or "offset" the partial shift of scheduled Social Security taxes to personal accounts.

If accounts funded with scheduled Social Security taxes are mandatory and universal, the offset to accommodate that tax shift could also be mandatory and universal. All Social Security contributors would automatically have part of their Social Security taxes put into individual accounts and all workers would be affected by across-the-board changes necessary to balance the remaining defined benefit system with a smaller amount of Social Security tax revenues.

If workers have a choice whether to shift part of their Social Security taxes to personal accounts, then some mechanism is need to personalize the reduction in scheduled benefits. A worker-specific offset would ensure that only individuals who chose to shift their Social Security taxes to individual accounts would have their traditional Social Security benefits reduced for this reason.