

Social Security Reform  
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## **SOCIAL SECURITY REFORM**

*WINTER 2005*

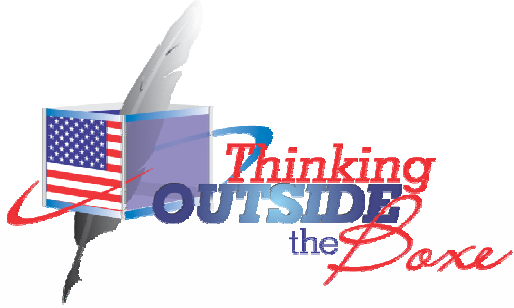
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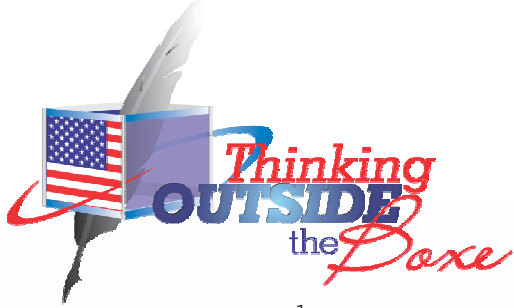
## ***Introduction***

In the last several months, reforming the Social Security system in the United States has become a focus of President Bush's re-election campaign and subsequently his second term and has captured the attention of millions of Americans. The great attention placed upon this issue is evident in the seemingly ubiquitous coverage of the debate in the media—television, newspapers, magazines, etc. President Bush is promoting reform of the system to incorporate personal accounts for younger workers; however, the President has repeatedly indicated that he will consider all viable plans to make the system financially stable and sustainable. Many Americans are confused and apprehensive about reforming Social Security and the impact any such reform could have upon retirees and those nearing retirement age. As support for the President's initiatives has gradually fallen over the last several weeks, supporters and opponents of reform are making renewed efforts to voice their opinions and promote their proposals.

What are the real issues behind reforming Social Security? Is there, in fact, an urgency to address the system as many have implied? Will reforming Social Security have an adverse impact upon retirees and older workers? What are the pros and cons of reform? In an effort to answer these questions and shed some light upon the complicated issue, Thinking Outside the Boxe studied the issue carefully, examining hundreds of pages of documents from various sources, and will attempt to provide a clear, objective discussion of reforming Social Security herein. In addition, Thinking Outside the Boxe will also offer some proposals that may be worth considering with respect to reforming Social Security.

## ***Social Security Background***

The Social Security system was founded in January 1940 as the Federal Old-Age and Survivors Insurance (OASI) Trust Fund, following passage of the Social Security Act by the Congress on



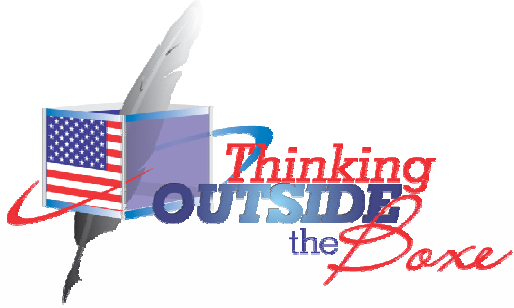
August 14, 1935<sup>1</sup>. The stock market crash in October 1929 precipitated an economic depression in the United States that left over twelve million unemployed by 1932. In the midst of the Great Depression and heightened geopolitical tensions (which would ultimately lead to U.S. involvement in World War II), millions of Americans faced living in terrible poverty, perhaps even starvation. President Franklin Roosevelt, working with the Congress, enacted a number of legislative initiatives as part of the New Deal to help America recover from adverse economic conditions and reignite the engines of American economic growth. The creation of the Social Security system, aimed at supplementing retirement income or providing the sole source of income after retirement, was not only for the welfare of their generation but was, rather, for the benefit and security of many generations to come.

In that respect, the program was visionary in what it sought to achieve for the American people. However, the dynamics of the system have changed over the last six or seven decades as a result of significant demographic changes during that time, such as the Baby Boom and the surge in population stemming from immigration into the United States along with longer life expectancies due to advances in healthcare and currently lower birthrates or smaller families. The number of workers to beneficiaries has dropped from 5-to-1 in 1960 to 3.4-to-1 currently and is projected to drop to 2-to-1 by 2050. It is unlikely that the founders of the Social Security system could have envisioned the demographic changes that occurred in the decades following the system's creations—demographic changes that will likely result in financial instability of the system in the near future.

The OASI and DI trust funds, separate accounts in the United States Treasury, are overseen by the Board of Trustees, comprised of six members—Secretary of the Treasury, Secretary of Labor, Secretary of Health and Human Services, Commissioner of Social Security, and two other members appointed by the President and confirmed by the Senate. The OASI and DI trust funds are funded by the contributions payable by workers, their employers, and individuals with self-employment income. The

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<sup>1</sup> The Federal Disability Insurance (DI) Trust Fund was established in August 1956. Though separate trust funds, discussion of the Social Security system typically includes operations of both the OASI and DI trust funds.



contributions are calculated based on covered workers' wages (up to \$87,900) at a rate of 12.4%--6.2% for employer and employee, each, and 12.4% for self-employed individuals. In addition, proceeds from taxation of OASDI benefits are credited to the trusts each year<sup>2</sup>.

Any surplus of the OASI and DI trust funds is invested in special public-debt obligations issued by the United States Treasury with an interest rate equal to the average market yield (as of the last day of the month) on all of the outstanding marketable U.S. obligations due or callable more than four years in the future. These special obligations are backed by the full faith and credit of the United States government and, though not publicly-traded, are redeemable at par at any time, thus ensuring that there is no change in principal stemming from changes in market yield. The Trust's portfolio of special obligations has an average interest rate of roughly 6%. This return on the assets held by the Trust is another source of receipts for the system. As of 2004, the Trust held \$1.7 trillion in these special issue U.S. Treasury securities.

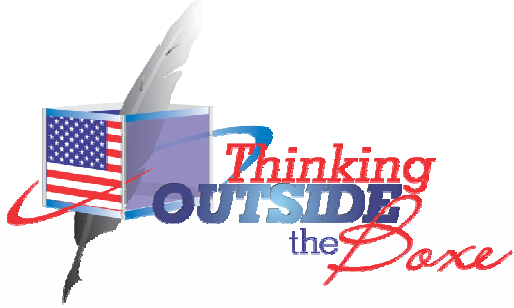
By exchanging the Trust's surpluses for Treasury obligations, the Congress is able to utilize this cash for other spending purposes included in the unified budget. These special Treasury obligations when redeemed by the Social Security Trust beginning in roughly 2018 will need to be financed by the taxpayers through either higher taxes or cuts in other government spending. As the Clinton administration's 2000 budget stated with respect to the Social Security Trust's assets<sup>3</sup>:

*These [Trust Fund] balances are available to finance future benefit payments and other Trust Fund expenditures—but only in a bookkeeping sense. . . . **They do not consist of real economic assets that can be drawn down in the future to fund benefits.** Instead, they are claims on the Treasury*

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<sup>2</sup> In 1984, legislation passed which subjected up to 50% of an individual's or couple's OASDI benefits to Federal income taxation. Beginning after 1993, the amount subject to taxation increased from 50% to 85% of OASDI benefits. The incremental tax revenues resulting from this are transferred to the HI Trust Fund (Medicare).

<sup>3</sup> As cited in *The 6.2 Percent Solution--A Plan for Reforming Social Security*, Michael Tanner, Cato Project on Social Security Choice, February 17, 2004.



*that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures. The existence of large Trust Fund balances, therefore, does not by itself have any impact on the Government's ability to pay benefits.*

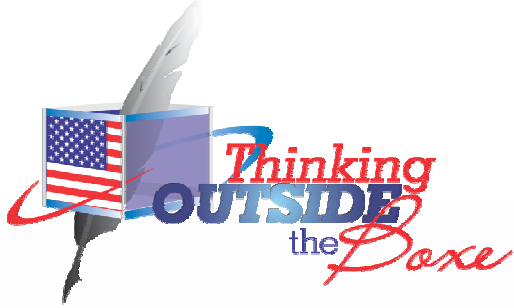
The total revenue of the Trust was \$658 billion in 2004 from the collection of taxes on the 157 million individuals with wages covered by the system and interest from the Trust's assets. Over \$493 billion was paid out in benefits in 2004 to roughly 48 million people—33 million retired workers and their dependents, 7 million survivors of deceased workers, and 8 million disabled workers and their dependents.

## **The Situation**

There's an old saying amongst attorneys: "Don't tell me what you know; tell me what you can prove." Here's what we can prove with respect to the situation currently facing Social Security. The corresponding sources of information are included throughout in the text or as footnotes. The facts and sources used herein are from a variety of institutions and agencies that are deemed reliable.

The best place to begin the assessment of the Social Security situation is *The 2005 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*. The excerpt below details the report's major findings. APPENDIX 1 provides the long-range results for the Social Security Trust.

*At the end of 2004, 48 million people were receiving benefits: 33 million retired workers and their dependents, 7 million survivors of deceased workers, and 8 million disabled workers and their dependents. During the year an estimated 157 million people had earnings covered by Social Security and paid payroll taxes. Total benefits paid in 2004 were \$493 billion. Income was \$658 billion, and assets held in special issue U.S. Treasury securities grew to \$1.7 trillion.*



### **Short-Range Results**

The OASI and DI Trust Funds, individually and combined, are adequately financed over the next 10 years under the intermediate assumptions. The combined assets of the OASI and DI Trust Funds are projected to increase from \$1,687 billion at the beginning of 2005, or 320 percent of annual expenditures, to \$3,697 billion at the beginning of 2014, or 417 percent of annual expenditures in that year. Combined assets were projected in last year's report to rise to 325 percent of annual expenditures at the beginning of 2005, and 446 percent at the beginning of 2014.

### **Long-Range Results**

Under the intermediate assumptions, OASDI cost will increase rapidly between about 2010 and 2030, due to the retirement of the large baby-boom generation. After 2030, increases in life expectancy and relatively low fertility rates will continue to increase Social Security system costs, but more slowly. Annual cost will exceed tax income starting in 2017 at which time the annual gap will be covered with cash from redeeming special obligations of the Treasury, until these assets are exhausted in 2041. Separately, the DI fund is projected to be exhausted in 2027 and the OASI fund in 2043. For the 75-year projection period, the actuarial deficit is 1.92 percent of taxable payroll, 0.04 percentage point larger than in last year's report. The open group unfunded obligation for OASDI over the 75-year period is \$4.0 trillion in present value, \$0.3 trillion more than the unfunded obligation estimated a year ago.

The OASDI annual cost rate is projected to increase from 11.13 percent of taxable payroll in 2005, to 16.74 percent in 2030, and to 19.08 percent in 2079, or to a level that is 5.70 percent of taxable payroll more than the projected income rate for 2079. Expressed in relation to the projected gross domestic product (GDP), OASDI cost is estimated to rise from the current level of 4.3 percent of GDP, to 6.1 percent in 2030, and to 6.4 percent in 2079.

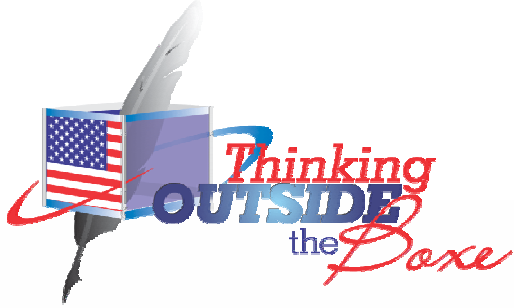
Though the Social Security system has been one of the most successful federal government programs in the history of the United States, Social Security was created during a period that

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was much different than the present. When the program was founded, many workers did not live to collect benefits from the system for a long period. Life expectancy for individuals was only 59.7 in 1930 (58.1 for men and 61.6 for women)<sup>4</sup>. By 1960, the life expectancy at birth was 69.7 (66.6 for men and 73.1 for women). Life expectancy increased to 73.7 in 1980 (70.0/men, 77.5/women) and to 76.9 in 2000 (74.1/men, 79.5/women).

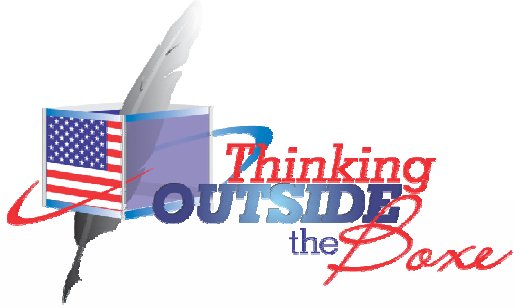
This marked rise in life expectancy increases the payment of Social Security benefits to retirees, thus necessitating additional funding for the system as the current assets are depleted at a much more rapid pace. This is a particularly daunting situation given that the Social Security system as we know it is a pay-as-you-go system—the current workers' payroll taxes are funding the Trust's current obligations to beneficiaries now retired. Thus, the current system does not save or invest enough of the funds it receives to accrue an asset base necessary to ensure continuation of benefits at current levels for future generations.

In addition to the longer life expectancies and lower fertility rates, demographic changes with respect to population and the number of workers have also had an adverse impact upon the Social Security system. When the Social Security system was founded and initiated, there were 41.9 covered workers per OASDI beneficiary. In 1960, there were 5.1 workers for every Social Security beneficiary. This ratio has fallen to 3.3-to-1 currently and is anticipated to fall to just 2-to-1 by 2050<sup>5</sup>. It is easy to see that workers over the last several decades have gradually borne more of the financial burden of the Social Security system; this trend is likely to continue for the future of the system.

As the demographics of the system have changed, so too has the age an average earner gets back the taxes paid into the retirement portion of the Social Security system. According to *The Interim Report of the President's Commission to Strengthen Social Security* (August 2001), an individual born in 1936 would have recaptured all taxes paid into the retirement portion of

<sup>4</sup> National Center for Health Statistics, U.S. Department of Health and Human Services

<sup>5</sup> The 2004 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.



Social Security at the age of 81.8. For individuals born in 1965, the age to recapture Social Security taxes increases to 91.9, well above the total life expectancy for an individual reaching the age of sixty-five of 83.0 for men and 86.1 for women.

As the demographics of the working population have changed and the finances of the Social Security System deteriorated, the real rates of return on taxpayers' investment in the Social Security has declined significantly<sup>6</sup>. The real rate of return for a single male (medium wages) born in 1970 is 1.13%; however, the real return falls for the same worker born in 2000 to 0.86%. For a single female (medium wages), the real return declines from 1.59% for those born in 1970 to 1.25% for those born in 2000. For a two-earner couple (medium/low wages) born in 1970, the real rate of return is 2.24%, declining to 1.88% for those born in 2000. These rates of return are substantially lower than risk-free Treasury securities. This clearly shows that the system is quickly becoming a drag on younger workers who are currently paying into the system. The real rate of return is expected to continue to fall for younger workers. *The Interim Report of the President's Commission to Strengthen Social Security* (August 2001) states the following with respect to the rates of return:

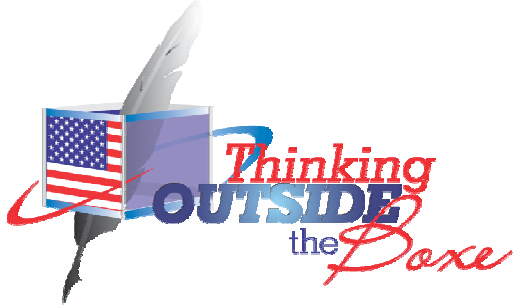
*Under such a system, entire generations will receive rates of return below those of risk-free government bonds. In practice, they will be forced to lose money through Social Security.*

Martin Feldstein, noted Harvard economist, estimated that privately investing all payroll taxes would produce a net benefit of \$10-\$20 trillion in present value terms<sup>7</sup>. This return would be significantly higher than the return currently available through the Social Security system and it seems to support the case for private investment accounts advocated by some policymakers.

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<sup>6</sup> The Interim Report of the President's Commission to Strengthen Social Security--August 2001

<sup>7</sup> As cited in *The 6.2 Percent Solution--A Plan for Reforming Social Security*, Michael Tanner, Cato Project on Social Security Choice, February 17, 2004.



It is worth mentioning that even with the low real rates of return, individuals do not have any ownership of the system. As the Supreme Court ruled in *Flemming v. Nestor*, citizens have no legal ownership of Social Security benefits. Instead, they are given just a promise by the government—a promise that is subject to change for any reason and at any time. This should be a warning signal to younger workers that personal saving in some form may be prudent in light of the situation facing the Social Security System.

It should be clear the current system and its low real rates of return are inefficient for younger workers planning for retirement, particularly if higher rates of return are available in other investment opportunities. Likewise, the current Social Security System does nothing to promote national saving, which is necessary to ensure retirement security for today's younger workers and to reduce the tax burden of financing the system for future generations. On this point, *The Interim Report of the President's Commission to Strengthen Social Security* (August 2001) says the following:

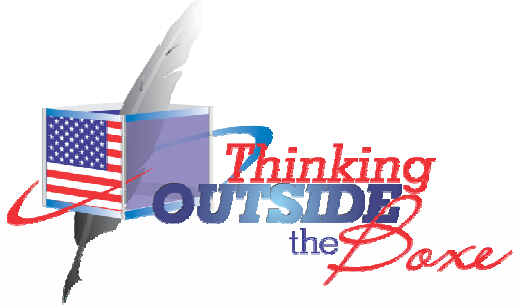
*Increased saving leads to capital formation and higher labor productivity, which will help a relatively smaller labor force maintain the standard of living of a relatively larger group of beneficiaries. It will expand the size of the economic pie available for everyone—both young and old—to consume. But America is not saving enough.*

*At a time when additional saving is needed to provide for future retirees, our national retirement program does not facilitate saving, either nationally or on behalf of individuals. In order to provide for a better retirement future, America must more truly become a nation of owners and savers.*

Alan Greenspan, Chairman of the Federal Reserve Board of Governors, has also weighed in on the subject of Social Security and its reform. In testimony before the Congress this year<sup>8</sup>, he indicated the need to address reform sooner rather than later, perhaps in an effort to give impetus to policymakers to secure a

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<sup>8</sup> Testimony of Chairman Alan Greenspan, *Economic outlook and current fiscal issues*, Before the Committee on the Budget, U.S. House of Representatives, March 2, 2005.



reform of the system before it is too late to avoid more massive adjustments to the system in the future.

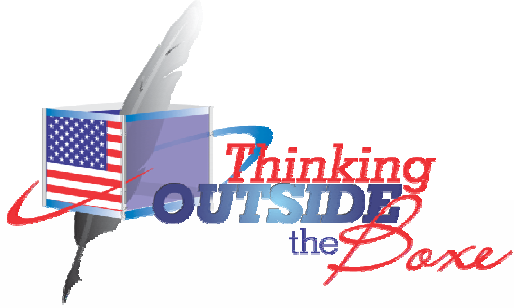
*I fear that we may have already committed more physical resources to the baby-boom generation in its retirement years than our economy has the capacity to deliver. If existing promises need to be changed, those changes should be made sooner rather than later. We owe future retirees as much time as possible to adjust their plans for work, saving, and retirement spending. They need to ensure that their personal resources, along with what they expect to receive from government, will be sufficient to meet their retirement goals.*

In his testimony, Chairman Greenspan also indicated the need for increased national saving, an issue the President's Commission to Strengthen Social Security also discussed.

*Much attention has been focused on the forecasted exhaustion of the Social Security trust fund in 2042. But solving that problem will do little in itself to meet the imperative to boost our national saving. Raising national saving is an essential step if we are to build a capital stock that by, say, 2030 will be sufficiently large to produce goods and services adequate to meet the needs of retirees without unduly curbing the standard of living of our working-age population. Unfortunately, the current Social Security system has not proven a reliable vehicle for such saving...In my view, a retirement system with a significant personal accounts component would provide a more credible means of ensuring that the program actually adds to overall saving and, in turn, boosts the nation's capital stock.*

Having examined the situation extensively and in a nonpartisan, nonpolitical manner, *The Interim Report of the President's Commission to Strengthen Social Security* (August 2001) concludes the following:

*If we are to maintain a sound system of support for tomorrow's retirees, all generations of Americans must be encouraged to save and invest more;*



*The Social Security program, as it now stands, does nothing to promote individual saving or investment. Workers have little sense of proprietorship or a sense of what they are entitled to. Many have lost confidence in ever receiving anything back;*

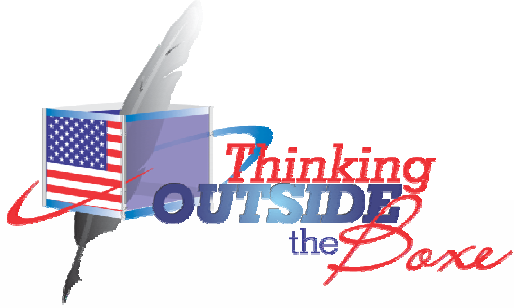
*The current system is financially unsustainable. Without reform, the promise of Social Security to future retirees cannot be met without eventual resort to benefit cuts, tax increases, or massive borrowing.*

## **The Proposals**

The situation facing Social Security leaves decisions makers with four options for maintaining the current system—significant tax increases, significant benefit cuts, significant reductions in other government spending, and significant issuances of public debt.

*The 2005 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds concludes the following with respect to the Social Security System and offers several proposals for solving the system's problems.*

*Under current law the cost of Social Security will soon begin to increase faster than the program's income, because of the aging of the baby-boom generation, expected continuing low fertility, and increasing life expectancy. Based on the Trustees' best estimate, program cost will exceed tax revenues starting in 2017 and throughout the remainder of the 75-year projection period. Social Security's combined trust funds are projected to allow full payment of benefits until they become exhausted in 2041. At that time annual tax income to the trust funds is projected to equal about 74 percent of program costs. Separately, the OASI and DI funds are projected to have sufficient funds to pay full benefits on time until 2043 and 2027, respectively. By 2079, however, annual tax income is projected to be only about two-thirds as large as the annual cost of the OASDI program.*



Over the full 75-year projection period the actuarial deficit estimated for the combined trust funds is 1.92 percent of taxable payroll—slightly higher than the 1.89 percent deficit projected in last year's report. This deficit indicates that financial adequacy of the program for the next 75 years could be restored if the Social Security payroll tax were immediately and permanently increased from its current level of 12.4 percent (for employees and employers combined) to 14.32 percent. Alternatively, all current and future benefits could be immediately reduced by about 13 percent. Other ways of reducing the deficit include making transfers from general revenues or adopting some combination of approaches.

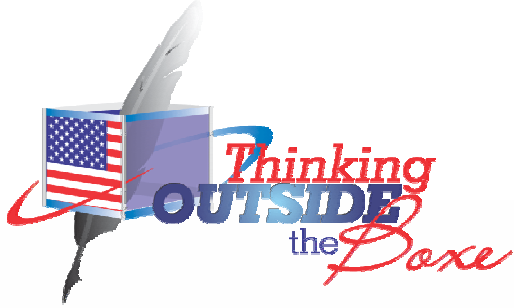
If no action were taken until the combined trust funds become exhausted in 2041, much larger changes would be required.

- For example, payroll taxes could be raised to finance scheduled benefits fully in every year starting in 2041. In this case, the payroll tax would be increased to 16.66 percent at the point of trust fund exhaustion in 2041 and continue rising to 18.10 percent in 2079.
- Similarly, benefits could be reduced to the level that is payable with scheduled tax rates in every year beginning in 2041. Under this scenario, benefits would be reduced 26 percent at the point of trust fund exhaustion in 2041, with reductions reaching 32 percent in 2079.

Either of these examples would eliminate annual deficits after trust fund exhaustion. Because of the increasing average age of the population (due to expected improvement in life expectancy), Social Security's annual cost will very likely continue to grow faster than scheduled tax revenues after 2079. As a result, ensuring solvency of the system beyond 2079 would likely require larger changes than those expected to be needed for 2079.

The projected trust fund deficits should be addressed in a timely way to allow for a gradual phasing in of the necessary changes and to provide advance notice to workers. The sooner adjustments are made the smaller and less abrupt

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*they will have to be. Social Security plays a critical role in the lives of 48 million beneficiaries, and 159 million covered workers and their families. With informed discussion, creative thinking, and timely legislative action, we will ensure that Social Security continues to protect future generations.*

It should be noted that the entire crisis facing Social Security is resolved simply by raising the payroll tax by roughly 1.92% effective immediately, as discussed in *The 2005 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*. The payroll tax has been raised twenty times since the inception of Social Security, most recently in 1983 at the behest of the Commission on Social Security chaired by Alan Greenspan. However, this is not a politically palatable position to take, given the adverse impact of tax increases upon workers and small business owners alike. By the same token, an increase of 1.92% points in the payroll tax could, arguably, not be readily noticeable to the worker earning \$50,000 as this increase would equate to only about \$480 per year<sup>9</sup>. This increase would be much more noticeable to lower wage workers struggling to survive.

According to *The Interim Report of the President's Commission to Strengthen Social Security* (August 2001), if the percentage shortfall in Social Security in 2020 existed today, a couples' taxes could increase by \$860. If the shortfall in 2030 existed today, taxes would increase by \$2,100, and if the shortfall in 2050 existed today, taxes would increase by \$2,295<sup>10</sup>.

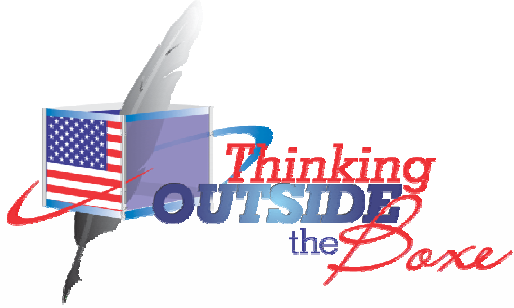
The Cato Institute's Cato Project on Social Security Choice has also estimated the additional tax burden upon workers associated with shoring up the current system and concludes the following<sup>11</sup>:

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<sup>9</sup> This is calculated as follows:  $1.92\%/2=0.96\%$  (recall that the worker and employer are each responsible for half of the payroll tax)  $0.96\% \times \$50,000=\$480$ .

<sup>10</sup> Based on a couple earning \$50,000 per year today.

<sup>11</sup> As cited in *The 6.2 Percent Solution--A Plan for Reforming Social Security*, Michael Tanner, Cato Project on Social Security Choice, February 17, 2004.



*The tax increases or benefit cuts would have to be quite large. To maintain benefits in the first year after Social Security starts running a deficit, the government must acquire revenues equivalent to \$197 per worker. By 2042, the additional tax burden increases to \$1,976 per worker, and by 2078 it reaches an astounding \$4,193 per worker (in constant 2003 dollars). And it continues to rise thereafter. Functionally, that would translate into either a huge increase in the payroll tax, from the current 12.4 percent to as much as 18.9 percent by 2077, or an equivalent increase in income or other taxes.*

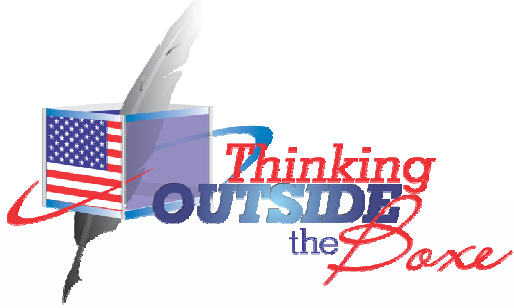
These dollar figures are likely significant amounts for most of the working population in America today.

As an alternative, benefits promised by the Social Security System could be cut to stabilize the Trust's financial situation. To do this, benefits would have to be cut by 12% if the percentage shortfall in 2020 existed today. Benefit cuts would increase to 24% and 26%, respectively, if the shortfall in 2030 and 2050 existed today. In dollar terms, these benefit cuts equate to \$2,227, \$4,605, and \$4,888 for a couple (medium-earners) who retired this year at 65 and who receive annual benefits of \$18,945. These benefit cuts are hardly any more palatable than an increase in taxes as a means of solving Social Security's long-term solvency problems<sup>12</sup>.

In order to address the Trust's cash flow problems beginning around 2018, the federal government could also cut government spending. To meet the cash flow deficiencies expected in 2018, the government would have to cut spending equal to the size of programs such as Head Start and the Special Supplemental Nutrition Program for Women, Infants, and Children. By the time the Trust's assets are exhausted in the 2040s, government spending would have been cut at a level equivalent to eliminating the Departments of Education, Interior, Commerce, Veterans Affairs, Energy, Housing & Urban Development, the Department of Justice, the Environmental Protection Agency, NASA, and the National Science Foundation<sup>13</sup>.

<sup>12</sup> The Interim Report of the President's Commission to Strengthen Social Security—August 2001

<sup>13</sup> The Interim Report of the President's Commission to Strengthen Social Security—August 2001



Lastly, the issuance of new public debt could be used to shore up the finances of the Social Security System. To do so, the government would have to issue roughly \$50 trillion between now and 2075. However, the issuance of debt only seems to mask the problem or defer the ultimate outcome, as any new debt issued is an obligation of the government that must be repaid at some point in the future. This would then place an additional burden on subsequent generations. With respect to this, *The Interim Report of the President's Commission to Strengthen Social Security* (August 2001) indicates:

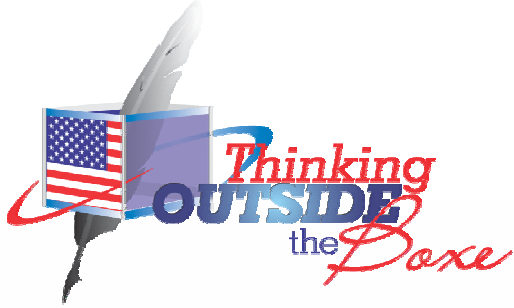
*Borrowing to invest in long-term structural improvements might be justified, if that borrowing would generate the ability to repay. But borrowing could never be repaid under the existing system. This additional public debt would continue to rise indefinitely.*

In testimony before the Congress this year, Chairman Greenspan offered other potential solutions to the Social Security reform issue, including increasing the retirement age, cutting benefits for Social Security recipients, and increasing national saving<sup>14</sup>.

*Increasing labor force participation seems a natural response to population aging, as Americans are not only living longer but are also generally living healthier...In addition, work is becoming less physically strenuous and more demanding intellectually, continuing a century-long trend toward a more conceptual and a less physical economic output...*

*...Another way to boost future standards of living is to increase saving. We need the additional saving in the decades ahead if we are to finance the construction of a capital stock that will produce the additional real resources needed to redeem the retirement claims of the baby boomers without having to severely raise claims on tomorrow's workers...Much has been made of shortfalls in our private defined-benefit plans, but the gross underfunding*

<sup>14</sup> Testimony of Chairman Alan Greenspan, *Future of the Social Security program and economics of retirement*, Before the Special Committee on Aging, U.S. Senate, March, 15, 2005.



*currently at \$450 billion, although significant as a percentage of the \$1.8 trillion in assets of private defined-benefit plans, is modest compared with the underfunding of our publicly administered pensions...*

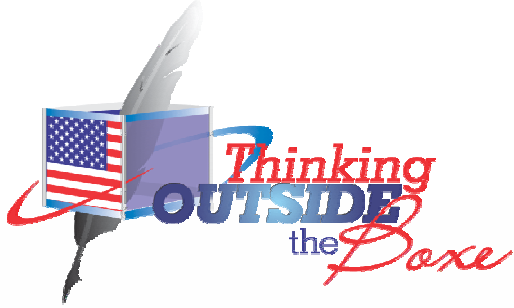
*...Because benefit cuts will almost surely be at least part of the resolution, it is incumbent on government to convey to future retirees that the real resources currently promised to be available on retirement will not be fully forthcoming.*

A number of people and organizations, including President Bush, Chairman Greenspan, and other policymakers, have endorsed the concept of private or personal accounts as a means of addressing Social Security reform. These proposals would allow younger workers to divert part of their payroll taxes into their own personal/private savings account for their retirement. Their Social Security benefits would, of course, be reduced due to the savings feature of the personal accounts.

In his March 2, 2005 testimony before the U.S. House of Representatives, Chairman Greenspan indicated the following:

*Raising national saving is an essential step if we are to build a capital stock that by, say, 2030 will be sufficiently large to produce goods and services adequate to meet the needs of retirees without unduly curbing the standard of living of our working-age population. Unfortunately, the current Social Security system has not proven a reliable vehicle for such saving...In my view, a retirement system with a significant personal accounts component would provide a more credible means of ensuring that the program actually adds to overall saving and, in turn, boosts the nation's capital stock.*

Support for private accounts has been mixed amongst the general public, though many younger workers support such a plan. In a March 18, 2005 article in *The Financial Times* by James Harding and Holly Yeager entitled "Social Security proves perilous for Democrats as young back reform," the following is presented with respect to support for private accounts.



*Among people aged 18 to 29, 68 per cent support a plan that would allow investment of some of their Social Security contributions in the stock market, according to a Washington Post poll this week. In the 30-39 age bracket, 63 per cent back such a proposal.*

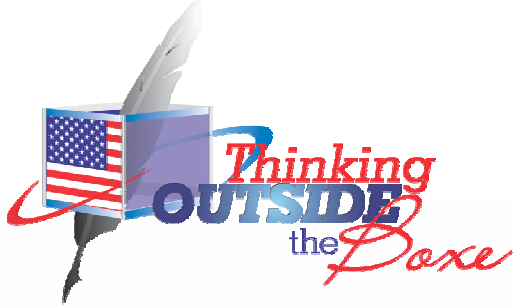
Jim Kolbe, an Arizona Republican, and Jim Boyd, a Florida Democrat, are co-sponsors on a bill in the U.S. House of Representatives proposing personal accounts. Andrew Balls describes the Kolbe-Boyd plan in "Legislators join forces on Social Security reform," *The Financial Times* on December 8, 2004:

*The Kolbe-Boyd bill would allow individuals to divert 3 per cent of their 12.4 per cent payroll tax for the first \$10,000 of earnings, and 2 per cent up to the current payroll tax threshold of \$87,900 into personal accounts. Benefits under the bill would be cut over the long term while protecting the retirement incomes of low-income workers, and would also increase the payroll tax maximum to \$133,200, in four stages, by 2008...The non-partisan Congressional Budget Office has said the personal accounts envisioned in the Kolbe-Boyd plan would cost \$1,160bn over the first 10 years. Taking into account the tax increases and benefit reductions, the impact on the unified budget would be about \$660bn. The leading proposal put forward by the 2001 Presidential Commission on Social Security reform would cost up to \$2,000bn over 10 years, according to the Social Security Administration.*

Another proposal involving personal accounts has been put forth by the Cato Institute, a non-profit public policy research foundation headquartered in Washington, D.C. This proposal to allow younger workers the option to invest up to half of their payroll taxes in a personal account would enable younger workers to achieve a potentially higher rate of return on their retirement funds and provide a permanent reform of the Social Security system rather than a temporary "fix" that would require additional reform in the future. Some details of the Cato Institute's proposal are provided in the excerpt below<sup>15</sup>:

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<sup>15</sup> *The 6.2 Percent Solution--A Plan for Reforming Social Security*, Michael Tanner, Cato Project on Social Security Choice, February 17, 2004.



*...The Cato Project on Social Security Choice, therefore, has developed a proposal to give workers ownership of and control over their retirement funds.*

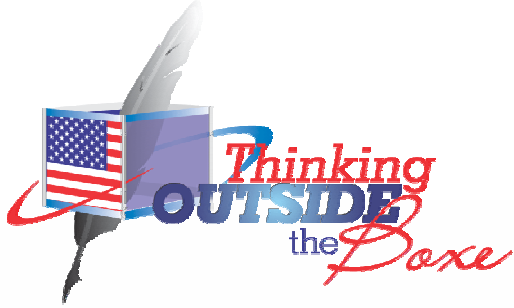
*Under this proposal:*

- Individuals would be allowed to divert their half (6.2 percentage points) of the payroll tax to individually owned, privately invested accounts. Those who chose to do so would agree to forgo all future accrual of retirement benefits under the traditional Social Security system.*
- The remaining 6.2 percentage points of payroll taxes would be used to pay transition costs and to fund disability and survivors' benefits.*
- Workers who chose the individual account option would receive a "recognition bond" based on the accrued value of their lifetime-to-date benefits. Those bonds, redeemable at the worker's retirement, would be fully tradable in secondary markets.*
- Those who wished to remain in the traditional Social Security system would be free to do so, accepting a level of benefits payable with the current level of revenue.*

*We expect this plan to restore Social Security to long-term and sustainable solvency and to do so at a cost that is less than the cost of simply propping up the existing program. And it would do far more than that.*

*Younger workers who chose the individual account option would receive benefits substantially higher than those that could be paid under traditional Social Security. At the same time, the plan would treat women and minorities more fairly and allow low-income workers to accumulate real wealth.*

*Most important, this proposal would reduce Americans' reliance on government and give individuals greater ownership of wealth, as well as responsibility for and control over their own lives. It would be a profound and significant increase in individual liberty.*



The ability to fund the transition to personal accounts, as proposed by the Cato Institute, is based on Congressional cuts in government spending, elimination of corporate subsidies, and "recapturing" a portion of the funds diverted to personal accounts through corporate taxes. The proposal is detailed by the Cato Institute as follows:

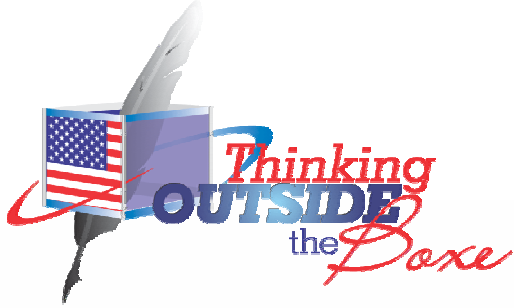
*...Although moving to a system of individual accounts will save money in the long run, there will almost certainly be a short-term requirement for additional revenues. That is because, to the degree that workers choose the individual account option, payroll tax revenues are redirected from the payment of current benefits to personal accounts. But because most of the workers who choose accounts are likely to be young, it will be many years before the accounts result in significant savings to the traditional system.*

*Where, then, will the transitional financing come from? Ultimately, this is a decision for Congress, which will have to weigh the utility of various financing mechanisms, including debt, taxes, and reductions in current government spending.*

*However, three sources are worth special note. First, the portion of taxes on Social Security benefits currently used to fund Medicare should be redirected back to Social Security. That would provide an estimated \$8.3 billion annually in additional revenue.*

*Second, the Cato Institute has identified more than \$87 billion annually in corporate welfare, roughly defined as "any government spending program that provides payments or unique benefits and advantages for specific companies or industries."*

*Sen. John McCain (R-AZ) and Rep. Richard Gephardt (D-MO) have called for a commission to pinpoint and eliminate corporate subsidies. Congress should take this idea a step further and earmark the savings for individual accounts. Senator Graham has proposed such a commission as part of Social Security reform legislation that he has introduced.*



*Third, to the degree that they actually represent an increase in national savings, contributions to individual accounts may, in themselves, prove to be a source of additional revenue for the federal government, revenue that could be used to help finance the transition.*

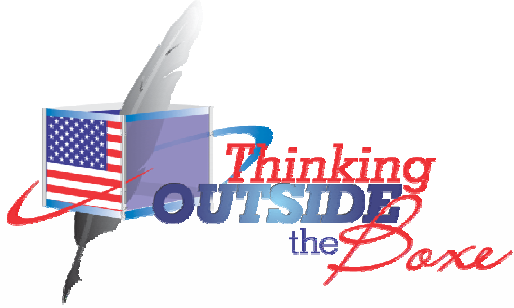
*It works in this way: The return on investment received by individuals is not the actual return earned by a given investment. A portion of the returns is actually taxed away through corporate taxes before returns are realized at the level of the individual investor. Therefore, a portion of the funds diverted to individual accounts is actually "recaptured" and available to help fund the transition. The Social Security Administration estimates that this revenue recapture would provide "a substantial and growing source of income to the OASDI program."*

*In a 1999 memo to Sen. Phil Gramm, the Social Security Administration estimated that, to the degree that contributions to individual accounts represent a net increase in savings, the recapture would be equal to 31.4 percent of the real, before-tax return on investments. This is based on an assumed average corporate tax rate of 35 percent applied against an assumed net new savings of 68.4 percent of assets invested through individual accounts.*

*After using the three financing sources discussed above, we believe that any remaining transition could be financed through reductions in other wasteful government spending. Simply restraining the projected growth in nondefense discretionary spending by 1 percent would generate more than \$20 billion per year.*

Though the Cato Institute's proposal is quite attractive, Thinking Outside the Boxe is cautious regarding the assumptions made about paying for the transition. These assumptions rely on much speculation—the ability of the Congress to cut corporate subsidies and the actual impact of "recapturing" a part of the invested funds through corporate taxes, for example. In addition, diverting funds used to pay for Medicare back to Social Security is merely robbing Peter to pay Paul, even if the funds were originally taxes on Social Security. Thinking Outside the Boxe believes that this proposal would, ultimately,

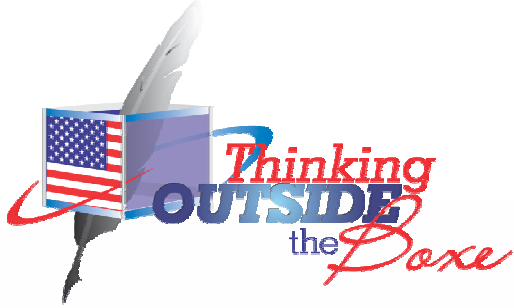
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result in higher taxes or the issuance of new public debt in order to finance the transition to personal accounts—even if part the previous assumptions were met.

President Bush has indicated that he strongly supports the creation of personal accounts for younger workers as a means of addressing the Social Security problem for future generations. To be sure, the President has been aggressively campaigning for bipartisan support for his proposal. In the February 2005 release of *Strengthening Social Security for the 21<sup>st</sup> Century*, the White House makes its case for personal accounts and provides background information on the Thrift Savings Plan currently offered to Federal employees. The following information is an excerpt from that publication:

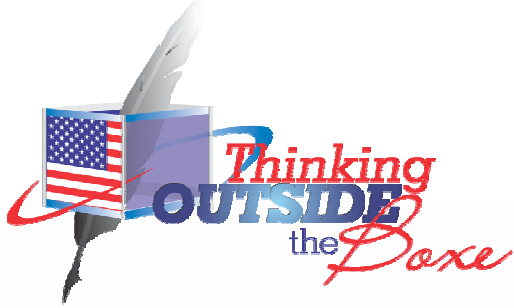
- ***The President believes personal retirement accounts must be part of a comprehensive solution to strengthen Social Security for the 21st century.***
- ***Under the President's plan, personal retirement accounts would start gradually. Yearly contribution limits would be raised over time, eventually permitting all workers to set aside 4 percentage points of their payroll taxes in their accounts.*** Annual contributions to personal retirement accounts initially would be capped, at \$1,000 per year in 2009. The cap would rise gradually over time, growing \$100 per year, plus growth in average wages.
- ***Personal retirement accounts offer younger workers the opportunity to build a "nest egg" for retirement that the government cannot take away...***
- ***Personal retirement accounts would be voluntary.*** At any time, a worker could "opt in" by making a one-time election to put a portion of his or her payroll taxes into a personal retirement account.
  - *Workers would have the flexibility to choose from several different low-cost, broadbased investment funds and would have the opportunity to adjust investment allocations periodically, but would not be allowed to move back and forth between personal*



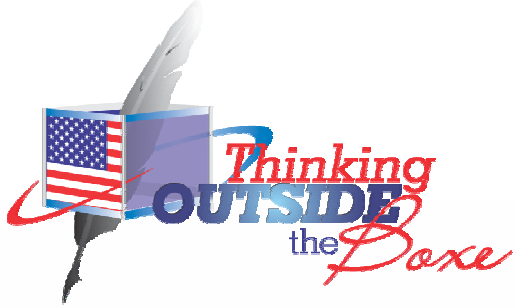
retirement accounts and the traditional system. If, after workers choose the account, they decide they want only the benefits the current system would give them, they can leave their money invested in government bonds like those the Social Security system invests in now.

- o Those workers who do not elect to create a personal retirement account would continue to draw benefits from the traditional Social Security system, reformed to be permanently sustainable.
- **Personal retirement account options and management would be similar to that of the Federal employee retirement program, known as the Thrift Savings Plan (TSP).** A centralized administrative structure would be created to collect personal retirement account contributions, manage investments, maintain records, and facilitate withdrawals at retirement. The structure would be designed to facilitate low costs, ease of use for new investors, and timely crediting of contributions. This centralized investment structure would help minimize compliance costs for employers...
- **Personal retirement accounts would be invested in a mix of conservative bonds and stock funds.** Guidelines and restrictions would be put in place to provide sound investment choices and prevent individuals from spending the money in these accounts on the lottery or at the race track. Workers would be permitted to allocate their personal retirement account contributions among a small number of very broadly diversified index funds patterned after the current TSP funds.
  - o Like TSP, personal retirement accounts could be invested in a safe government securities fund; an investment-grade corporate bond index fund; a small-cap stock index fund; a large-cap stock index fund; and an international stock index fund.
  - o In addition to these TSP-type funds, workers could choose a government bond fund with a guaranteed rate of return above inflation.

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- o Workers could also choose a "life cycle portfolio" that would automatically adjust the level of risk of the investments as the worker aged. The life cycle fund would automatically and gradually shift the allocation of investment funds as the individual neared retirement age so that it was weighted more heavily toward secure bonds.
- **Personal retirement accounts would be protected from sudden market swings on the eve of retirement.** To protect near-retirees from sudden market swings on the eve of retirement, personal retirement accounts would be automatically invested in the "life cycle portfolio" when a worker reaches age 47, unless the worker and his or her spouse specifically opted out by signing a waiver form stating they are aware of the risks involved...
- **Personal retirement accounts would not be eaten up by hidden Wall Street fees.** Personal retirement accounts would be low-cost. The Social Security Administration's actuaries project that the ongoing administrative costs for a TSP-style personal account structure would be roughly 30 basis points or 0.3 percentage points, compared to an average of 125 basis points for investments in stock mutual funds and 88 basis points in bond mutual funds in 2003. ([www.ici.org/issues/fee/fm-v13n5](http://www.ici.org/issues/fee/fm-v13n5)).
- **Personal retirement accounts would not be accessible prior to retirement.** American workers who choose personal retirement accounts would not be allowed to make withdrawals from, take loans from, or borrow against their accounts prior to retirement.
- **Personal retirement accounts would not be emptied out all at once, but rather paid out over time, as an addition to traditional Social Security benefits.** Under a system of personal retirement accounts, procedures would be established to govern how account balances would be withdrawn at retirement. This would involve some combination of annuities to ensure a stream of monthly income over the worker's life expectancy, phased



withdrawals indexed to life expectancy, and lump sum withdrawals. Individuals would not be permitted to withdraw funds from their personal retirement accounts as lump sums, if doing so would result in their moving below the poverty line. Account balances in excess of the poverty-protection threshold requirement could be withdrawn as a lump sum for any purpose or left in the account to accumulate interest. Any unused portion of the account could be passed on to loved ones.

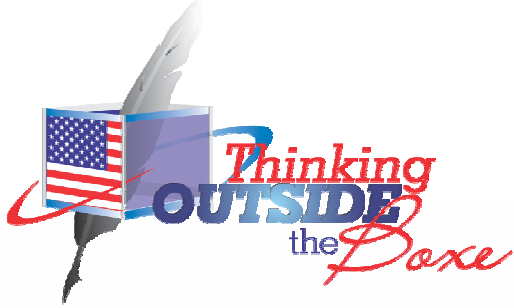
- **Personal retirement accounts would be phased in.** To ease the transition to a personal retirement account system, participation would be phased in according to the age of the worker. In the first year of implementation, workers currently between age 40 and 54 (born 1950 through 1965 inclusive) would have the option of establishing personal retirement accounts. In the second year, workers currently between age 26 and 54 (born 1950 through 1978 inclusive) would be given the option and by the end of the third year, all workers born in 1950 or later who want to participate in personal retirement accounts would be able to do so.
- **The President's personal retirement account proposal is fiscally responsible.** The President's proposal is consistent with his overall goal of cutting the deficit in half by 2009. Based on analysis by the Social Security Administration Actuary, the Office of Management and Budget estimates that the President's personal retirement account proposal will require transition financing of \$664 billion over the next ten years (\$754 billion including interest). This transition financing will not have the same effect on national savings, and thus the economy, as traditional government borrowing. Personal retirement accounts will not reduce the pool of savings available to the markets because every dollar borrowed by the Federal government to fund the transition is fully offset by an increase in savings represented by the accounts themselves. Moreover, the transition financing for personal retirement accounts should be viewed as part of a comprehensive plan to make the Social Security system permanently sustainable. Publicly released analysis by the Social Security Administration has found that several comprehensive proposals including personal accounts would dramatically

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reduce the costs of permanently fixing the system.  
([www.ssa.gov/OACT/solvency/index](http://www.ssa.gov/OACT/solvency/index)).

- **Establishing personal retirement accounts does not add to the total costs that Social Security faces.** Personal retirement accounts effectively pre-fund Social Security benefits already promised to today's workers and do not represent a net increase in Federal obligations. The obligation to pay Social Security benefits is already there. While personal retirement accounts affect the timing of these costs, they do not add to the total amount obligated through Social Security.

#### **Thrift Savings Plan Background**

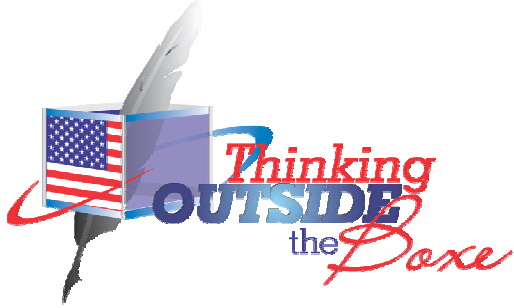
- The Thrift Savings Plan (TSP) is a voluntary retirement savings plan offered to Federal employees, including members of Congress.
- It offers comparable benefits and features to those available to private sector employees in 401(k) retirement plans, including pre-tax contributions through convenient payroll withholding.
- The TSP currently has 3.4 million participants, and their investments have grown to \$152 billion. Participants voluntarily add \$1.3 billion per month in new contributions to their accounts.
- Participants have the choice to invest in any or all of five broad-based investment funds:
  - A stable value fund invested in U.S. Treasury securities
  - An index fund comprising investment grade bonds
  - Small and mid-cap stock index fund
  - Large cap stock index fund
  - International stock index fund
- These funds have the following 10-year compound annual rates of return:

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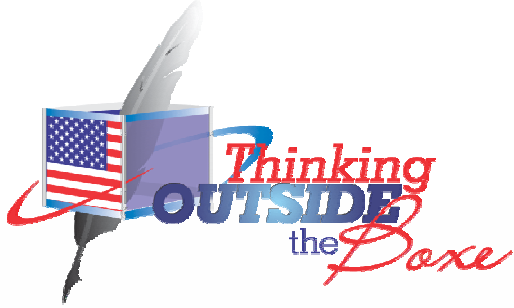


- o *G Fund (government securities fund) 6.04% (3.67% real)*
  - o *F Fund (bond index fund) 6.95% (4.58% real)*
  - o *C Fund (common stock index fund) 10.99% (8.62% real)*
  - o *S Fund (small capitalization stock index fund) 9.70% (7.33% real)*
  - o *I Fund (international stock index fund) 4.32% (1.95% real)*
- *Beginning this summer, the TSP will offer lifecycle portfolios, each with a designated ratio of investments among the five TSP funds. This balanced, diversified portfolio will automatically reallocate as the participant's retirement date approaches.*

Thinking Outside the Boxe believes that the President's personal retirement accounts plan is a viable way to ensure retirement stability for today's younger workers. Though Thinking Outside the Boxe supports the Cato Institute's proposal allowing workers to divert their 6.2% of payroll taxes into a personal account, capping the annual contributions at \$1,000 (increasing by \$100 per year plus wage growth) appears to be an economically sensible proposal whilst also enabling workers to accumulate a large enough personal account to provide comfortably for retirement. A \$1,000 annual contribution (representing only 2% of the 12.4% payroll taxes of a worker earning \$50,000 per year but a larger proportion for those earning less than \$50,000 per year) that increases by \$100 per year (up to a maximum of \$3,100 per year or the 6.2% employee portion of payroll taxes based on a \$50,000 per year annual income) and that earns a 5% compound return per year would grow to roughly \$390,000 over forty-seven years (or the amount of time an individual entering the workforce at age eighteen would be anticipated to work before being eligible for retirement).

Despite the attractiveness of this proposal, Thinking Outside the Boxe remains concerned over the financing of the estimated \$664 billion cost (over the next ten years) associated with implementing private accounts as part of the Social Security system. An issuance of Treasury securities in this amount to finance the system could have adverse long-term economic consequences for the United States. Having said this, however, Thinking Outside the Boxe believes that the economic consequences of inaction in fixing the Social Security system

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far outweigh the costs associated with implementing the President's proposal. Therefore, Thinking Outside the Boxe would rather see the President's plan or a similar plan implemented in the near future as a means of solving the long-term issues of Social Security, as previously delineated, than see the government do nothing and postpone addressing the issue until a later date at which time the costs of fixing the system would be significantly greater than financing the transition to personal accounts.

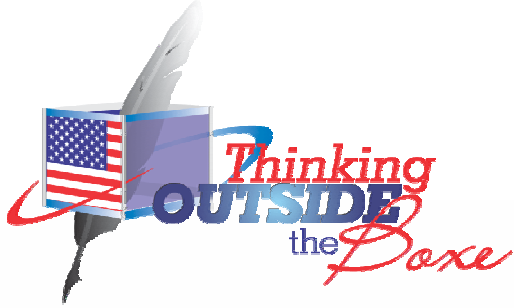
### ***Thinking Outside the Boxe's Proposal***

As part of Thinking Outside the Boxe's commitment to providing independent insight into the issues facing the Social Security system, it seems appropriate also to offer our own proposal on addressing the long-term problems of the system. As previously discussed, Thinking Outside the Boxe supports a plan that includes personal accounts for younger workers. In addition, Thinking Outside the Boxe also expresses concern regarding the financing of such a plan during the transition period when the Trust's revenues fall short of expenditures to pay current benefits to retired workers as younger workers divert part of their payroll taxes to their personal accounts. Based on the information from a variety of sources previously discussed and our own research, Thinking Outside the Boxe has developed a comprehensive plan to reform Social Security in an economically responsible manner that seeks to satisfy all of the interests involved in reforming the system.

Thinking Outside the Boxe's plan to reform Social Security includes the following initiatives:

- **A National Social Security Lottery**—A national lottery modeled after those such as Powerball and MegaMillions will be designed and implemented with the profits from this lottery funding the transition to personal accounts, such as those proposed by President Bush and the Cato Institute.
- **A Minimal Increase in the Payroll Tax from 12.4% to 14.4%, Phased in over the Next Ten Years**—Though Thinking Outside the Boxe is typically opposed to any form of tax

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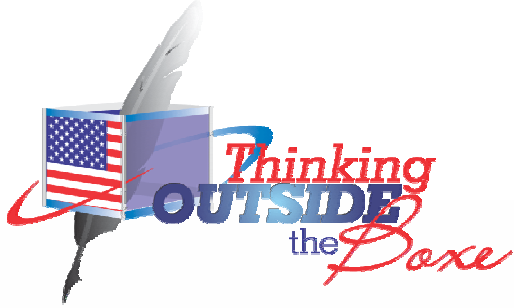
increases imposed upon the American public, we believe this increase in the payroll tax is necessary to ensure the long-term stability of the Social Security system for future generations. Further, we believe this tax increase, phased in over the next decade, is of a minimal nature so as not to be detrimental to workers and businesses alike.

- **An Increase in the Retirement Age from 65 to 66 for workers born after 1970**—With advances in technology and medicine, Americans are living longer, healthier lives. It is not unreasonable, in the opinion of Thinking Outside the Boxe, to increase the age for eligibility for Social Security benefits from 65 to 66 for younger workers born after 1970 and for those not opting to participate in the voluntary personal accounts.
- **A Decrease in Social Security Benefits for Retired Workers receiving Defined Benefit Pension Plans**—Thinking Outside the Boxe believes that the over forty million retired workers that are participants in a defined benefit pension plan should receive reduced Social Security benefits based on their pension plan benefits. Those earning higher pension benefits should receive less in Social Security benefits than those receiving lower pensions. Thinking Outside the Boxe believes that many individuals on defined benefit pension plans, such as auto workers, pilots, steel workers, etc., are receiving very generous pensions that include healthcare benefits. As such, these individuals with significant defined benefit pension plans should be able to live a very comfortable lifestyle (more so than the average American worker), even with reduced Social Security benefits.

### ***The National Social Security Lottery***

The cornerstone of Thinking Outside the Boxe's Social Security reform plan is the foundation of a National Social Security lottery. The National Social Security Lottery would be modeled after the Powerball or MegaMillions lotteries that are already played in forty states and the District of Columbia and that are run by non-profit government-benefit associations such as the Multi-State Lottery Association (which runs the

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Powerball). The Powerball website ([www.powerball.com](http://www.powerball.com)) explains the operation of the system as follows:

*...The Multi-State Lottery Association (which administers the Powerball game) is a non-profit government-benefit association entirely owned and operated by the member state lotteries. Powerball is a 50% prize payout game which means that 50 cents of every one dollar ticket is paid out in prizes. The state lottery keeps 50% as its share and then pays the rest out in prizes. The state lottery pays the cash prizes directly to the players in its state and then sends the percentage share for the jackpot prize back to the association where we hold it until there is a winner. **Any state that sells a ticket keeps ALL of the profit from that ticket.** The only money that is sent to the central organization is the money to pay the jackpot prize.*

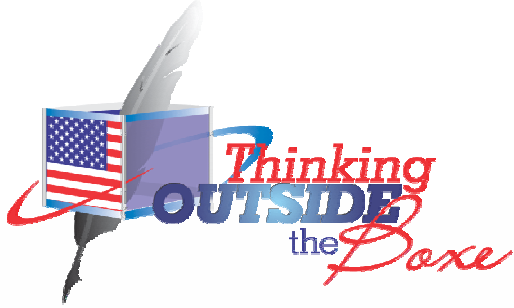
*Sharing the cost of running a single game is very cost efficient. We know of no other lottery game more profitable for a state lottery than Powerball.*

The profits of these lotteries are generally used to support state government projects and services such as education, economic development, natural resources, state parks, crime control, property tax relief, senior citizens' centers & programs, transportation, etc. Notable examples of lottery proceeds and their uses as reported by the North American Association of State & Provincial Lotteries (NASPL)<sup>16</sup> include:

- Since 1967, the New York Lottery has generated more than \$21 billion for education.
- The California State Lottery has generated more than \$14 billion for education since 1985.
- The Connecticut Lottery Corporation has generated more than \$4.8 billion to benefit education, roads, health & hospitals, and public safety since 1972.
- The Illinois Lottery has provided more than \$11 billion to the Common School Fund (K-12) since 1974.
- Since 1989, the Kentucky Lottery Corporation has produced more than \$214 million for education, \$32 million for

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<sup>16</sup> [www.naspl.org](http://www.naspl.org)



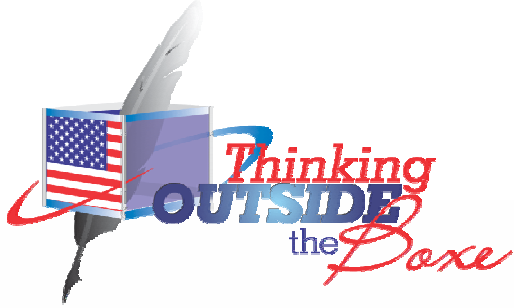
Vietnam Veterans, \$1.3 billion for the general fund, \$203 million for post-secondary and college scholarships, \$17 million for the Affordable Housing Trust Fund, and \$9 million for literacy programs & early childhood reading.

- The Pennsylvania State Lottery has generated over \$13 billion for older Pennsylvanians since 1972.
- Since 1986, the West Virginia Lottery has provided over \$367 million to education, \$196 million to senior citizens' programs & services, \$170 million to tourism, \$223 million to bonds covering profit areas, \$139 million to the general fund, and \$80 million to other services and projects.

It should be clear that the profits generated by the state lotteries, which are substantial, are generally used to fund worthwhile social services and projects within each state. The National Social Security Lottery would operate under the same premise with all of the profits going to fund the transition costs associated with implementing personal accounts in the Social Security system. Any funds generated over and beyond those required to fund the transition would be put into a Social Security Trust "lockbox" and could not be included in the Federal government's annual unified budget. The National Social Security Lottery would be administered by a non-governmental organization similar in nature to the Multi-State Lottery Association, which would be beyond the control of any governmental organization or agency. The organization administering the lottery would make annual payments to the Social Security Trust to cover the financing costs associated with the transition to personal accounts and to cover any deficits in the Trust's operations. This should ensure that the proceeds are controlled by a non-governmental organization rather than politicians.

Thinking Outside the Boxe believes that there would be significant interest in a National Social Security Lottery, particularly given that the profits would go to benefit the Social Security system by making it stronger for current recipients and future generations. War bonds were promoted to the public as a patriotic investment during the Civil War and World War II to fund the war efforts. Today, the National Social Security Lottery could be promoted on the same grounds. After all, with the financial troubles facing Social Security, what could be more patriotic than supporting the reform effort

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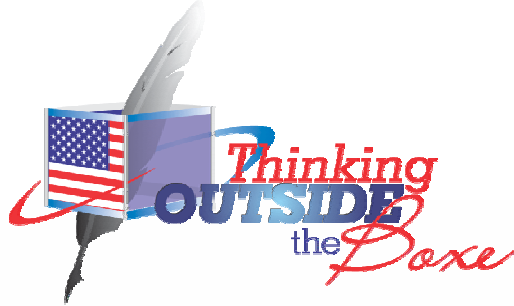
by purchasing a lottery ticket—a purchase that could result in winning cash prizes, including the jackpot. Individuals in states with lotteries are inevitably going to play the lottery. Why not capitalize on this to reform the current Social Security system? Those who oppose lotteries or object on moral grounds (citing problems stemming from gambling addiction) would likely still oppose a National Social Security Lottery. However, their arguments, though respectable in certain aspects, are likely to sound unpatriotic in light of the very moral cause of supporting reform of Social Security.

In addition, any winnings from playing the National Social Security Lottery should be completely tax exempt at the Federal level. This provides further incentive for individuals choosing to play the lottery. To those who oppose lotteries on moral grounds, Thinking Outside the Boxe suggests that a portion of the proceeds from the National Social Security Lottery (perhaps 0.5%) be earmarked for services associated with helping those with gambling problems and addictions. For example, South Carolina uses a portion of the state's lottery proceeds to produce commercials and literature promoting "Play Responsibly." In addition, a portion of the profits (Thinking Outside the Boxe suggests between 5%-10%) should be set aside to contribute to either Medicare or health care costs for low income communities.

In assessing the financial potential of the National Social Security Lottery, Thinking Outside the Boxe began with an examination of data on the current lotteries in the United States. In 2004, these lotteries in forty states and the District of Columbia, representing a population of approximately 262 million Americans, generated over \$14.8 billion in profits on \$48.5 billion in sales, as illustrated in the following table<sup>17</sup>. On a per capita basis, this equates to roughly \$185 per person in lottery sales. Thinking Outside the Boxe will assume that the National Social Security Lottery will cannibalize some of the sales of existing lotteries. This is likely true in some respects; however, a National Social Security Lottery may also generate additional sales apart from cannibalizing other lottery sales.

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<sup>17</sup> From the North American Association of State & Provincial Lotteries



## STATE LOTTERY STATISTICS

### DATA FROM NASPL

State	Population (millions)	2004 Sales	2004 Profits	Profits as % of Sales	2004 Sales per Capita
Arizona	5.58	\$ 366,580,000	\$ 107,760,000	29.4%	\$ 65.70
California	35.48	\$ 2,945,890,000	\$ 1,044,060,000	35.4%	\$ 83.03
Colorado	4.55	\$ 401,250,000	\$ 104,070,000	25.9%	\$ 88.19
Connecticut	3.48	\$ 907,660,000	\$ 280,760,000	30.9%	\$ 260.82
Delaware	0.82	\$ 640,920,000	\$ 222,000,000	34.6%	\$ 781.61
District of Columbia	0.56	\$ 245,040,000	\$ 75,770,000	30.9%	\$ 437.57
Florida	17.02	\$ 3,070,960,000	\$ 1,050,000,000	34.2%	\$ 180.43
Georgia	8.68	\$ 2,710,460,000	\$ 782,690,000	28.9%	\$ 312.26
Idaho	1.37	\$ 109,320,000	\$ 23,000,000	21.0%	\$ 79.80
Illinois	12.65	\$ 1,709,190,000	\$ 570,100,000	33.4%	\$ 135.11
Indiana	6.2	\$ 734,870,000	\$ 199,440,000	27.1%	\$ 118.53
Iowa	2.94	\$ 209,920,000	\$ 55,100,000	26.2%	\$ 71.40
Kansas	2.72	\$ 224,200,000	\$ 73,000,000	32.6%	\$ 82.43
Kentucky	4.12	\$ 725,250,000	\$ 193,480,000	26.7%	\$ 176.03
Louisiana	4.5	\$ 340,090,000	\$ 121,200,000	35.6%	\$ 75.58
Maine	1.31	\$ 185,880,000	\$ 42,530,000	22.9%	\$ 141.89
Maryland	5.51	\$ 1,395,410,000	\$ 458,370,000	32.8%	\$ 253.25
Massachusetts <sup>1</sup>	6.43	\$ 4,381,250,000	\$ 889,490,000	20.3%	\$ 681.38
Michigan	10.08	\$ 1,967,800,000	\$ 645,000,000	32.8%	\$ 195.22
Minnesota	5.06	\$ 386,900,000	\$ 100,000,000	25.8%	\$ 76.46
Missouri	5.7	\$ 791,520,000	\$ 230,320,000	29.1%	\$ 138.86
Montana	0.92	\$ 36,740,000	\$ 8,120,000	22.1%	\$ 39.93
Nebraska	1.74	\$ 92,640,000	\$ 19,720,000	21.3%	\$ 53.24
New Hampshire	1.29	\$ 237,120,000	\$ 71,500,000	30.2%	\$ 183.81
New Jersey	8.64	\$ 2,188,500,000	\$ 793,000,000	36.2%	\$ 253.30
New Mexico	1.87	\$ 148,700,000	\$ 35,940,000	24.2%	\$ 79.52
New York	19.19	\$ 5,847,500,000	\$ 1,907,400,000	32.6%	\$ 304.72
North Dakota <sup>2</sup>	0.63	\$ 5,840,000	\$ -	0.0%	\$ 9.27
Ohio	11.44	\$ 2,154,710,000	\$ 648,100,000	30.1%	\$ 188.35
Oregon	3.56	\$ 893,260,000	\$ 387,120,000	43.3%	\$ 250.92
Pennsylvania	12.37	\$ 2,352,070,000	\$ 818,670,000	34.8%	\$ 190.14
Rhode Island	1.08	\$ 1,480,630,000	\$ 281,030,000	19.0%	\$ 1,370.95
South Carolina	4.15	\$ 950,000,000	\$ 290,100,000	30.5%	\$ 228.92
South Dakota	0.76	\$ 664,420,000	\$ 114,770,000	17.3%	\$ 874.24
Tennessee	5.84	\$ 427,700,000	\$ 123,700,000	28.9%	\$ 73.24
Texas	22.12	\$ 2,904,860,000	\$ 839,260,000	28.9%	\$ 131.32
Vermont	0.62	\$ 92,330,000	\$ 19,500,000	21.1%	\$ 148.92
Virginia	7.39	\$ 1,262,360,000	\$ 408,100,000	32.3%	\$ 170.82
Washington	6.13	\$ 481,440,000	\$ 117,300,000	24.4%	\$ 78.54
West Virginia	1.81	\$ 1,303,490,000	\$ 512,140,000	39.3%	\$ 720.16
Wisconsin <sup>3</sup>	5.47	\$ 482,930,000	\$ 141,500,000	29.3%	\$ 88.29
<b>TOTAL</b>	<b>261.78</b>	<b>\$ 48,457,600,000</b>	<b>\$ 14,805,110,000</b>	<b>30.6%</b>	<b>\$ 185.11</b>

<sup>1</sup> 2004 Profit data not available. Profit figure is from 2003.

<sup>2</sup> 2004 Profit data not available.

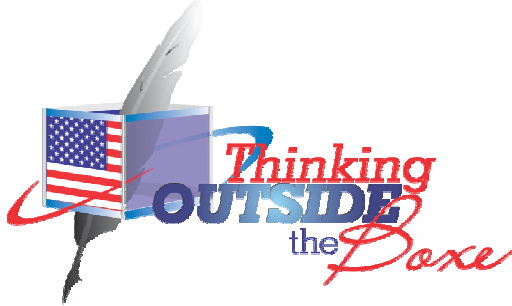
<sup>3</sup> 2004 Profit data not available. Profit figure is from 2003.

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Currently, the ten states that do not have lotteries are Alabama, Alaska, Arkansas, Hawaii, Mississippi, Nevada, North Carolina, Oklahoma, Utah, and Wyoming. These states have a combined population of roughly twenty-nine million. Applying the sales per capita from the actual data for the existing lotteries, we arrive at the following projections for lottery sales and profits in those states that do not currently have lotteries but which would participate in the National Social Security Lottery.

PROJECTED STATE LOTTERY SALES						
States with No Lotteries	Population (millions)	Assumed Sales Per Capita	Projected Sales	Assumed Profit as % of Sales	Projected Profits	
Alabama	4.486508	\$ 185.11	\$ 830,000,000	30.6%	\$	254,000,000
Alaska	0.643786	\$ 185.11	\$ 119,000,000	30.6%	\$	36,000,000
Arkansas	2.710079	\$ 185.11	\$ 502,000,000	30.6%	\$	153,000,000
Hawaii	1.244898	\$ 185.11	\$ 230,000,000	30.6%	\$	70,000,000
Mississippi	2.871782	\$ 185.11	\$ 532,000,000	30.6%	\$	163,000,000
Nevada	2.173491	\$ 185.11	\$ 402,000,000	30.6%	\$	123,000,000
North Carolina	8.320146	\$ 185.11	\$ 1,540,000,000	30.6%	\$	471,000,000
Oklahoma	3.493714	\$ 185.11	\$ 647,000,000	30.6%	\$	198,000,000
Utah	2.316256	\$ 185.11	\$ 429,000,000	30.6%	\$	131,000,000
Wyoming	0.498703	\$ 185.11	\$ 92,000,000	30.6%	\$	28,000,000
<b>TOTAL</b>	<b>28.759363</b>		<b>\$ 5,323,000,000</b>		<b>\$</b>	<b>1,627,000,000</b>

Based on this, Thinking Outside the Boxe estimates that the total potential lottery sales for the United States approximates \$54 billion annually with profits of over \$16 billion. We then calculated the potential revenues of the National Social Security Lottery based on two sets of assumptions:

- **Scenario 1:** the National Social Security Lottery cannibalizes 50% of existing lottery sales and receives 100% of sales in the ten states that currently do not have lotteries (See APPENDIX 2)
- **Scenario 2:** the National Social Security Lottery cannibalizes 25% of existing lottery sales and receives 100% of sales in the ten states that currently do not have lotteries. (See APPENDIX 3)

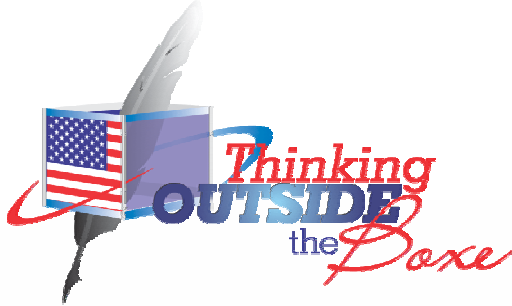
The following tables provide a summary of our projections for the annual lottery profits generated by the National Social

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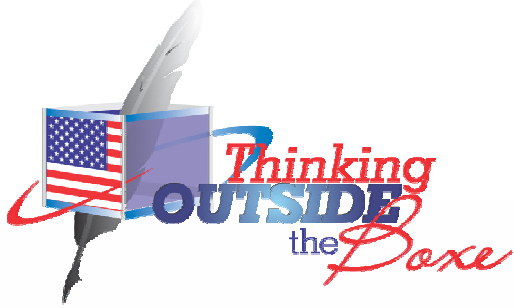
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Security Lottery in 2005 dollars. Our assumptions include a 1% annual increase in lottery profits along with a 6% annual return on the profits invested in a diversified portfolio of stocks and bonds. APPENDIX 4 provides the projected profits based on an 8% annual return for comparative purposes only. In addition, we believe that the National Social Security Lottery would not be in place and fully in operation until at least 2008. It is likely that it would take several years to pass the necessary legislation and institute the necessary organizations to run the lottery. Lastly, we have assumed that the profits are roughly 31% of the lottery's total sales. This is less than the 50% anticipated to go to the fund in order to compensate for administrative costs, contributions to the gambling awareness campaign and addiction services, and contributions to Medicare or health care funding for low income communities. The complete projections are included in the appendix.

<b>SCENARIO 1</b>		
<b>SUMMARY LOTTERY PROJECTIONS</b>		
<b>Year</b>	<b>Lottery Profits</b>	<b>Cumulative Funds Generated</b>
2008	\$ 9,029,555,000	\$ 9,029,555,000
2009	\$ 9,120,000,000	\$ 18,691,328,300
2010	\$ 9,211,000,000	\$ 29,024,000,000
2015	\$ 9,681,000,000	\$ 92,279,000,000
2020	\$ 10,176,000,000	\$ 179,662,000,000
2025	\$ 10,696,000,000	\$ 299,471,000,000
2030	\$ 11,241,000,000	\$ 462,815,000,000
2035	\$ 11,815,000,000	\$ 684,569,000,000
2040	\$ 12,418,000,000	\$ 984,655,000,000
2045	\$ 13,051,000,000	\$ 1,389,734,000,000
2050	\$ 13,717,000,000	\$ 1,935,499,000,000
2055	\$ 14,417,000,000	\$ 2,669,718,000,000
2060	\$ 15,153,000,000	\$ 3,656,330,000,000
2065	\$ 15,927,000,000	\$ 4,980,913,000,000
2070	\$ 16,739,000,000	\$ 6,757,987,000,000
2075	\$ 17,592,000,000	\$ 9,140,823,000,000
2080	\$ 18,489,000,000	\$ 12,334,546,000,000
<b>Assumptions</b>		
<b>6% Annual Return on Assets</b>		
<b>1% Annual Growth in Lottery Profits</b>		

<b>SCENARIO 2</b>		
<b>SUMMARY LOTTERY PROJECTIONS</b>		
<b>Year</b>	<b>Lottery Profits</b>	<b>Cumulative Funds Generated</b>
2008	\$ 5,328,000,000	\$ -
2009	\$ 5,381,000,000	\$ 11,028,680,000
2010	\$ 5,435,000,000	\$ 17,125,000,000
2015	\$ 5,712,000,000	\$ 54,448,000,000
2020	\$ 6,003,000,000	\$ 106,003,000,000
2025	\$ 6,309,000,000	\$ 176,684,000,000
2030	\$ 6,631,000,000	\$ 273,046,000,000
2035	\$ 6,969,000,000	\$ 403,868,000,000
2040	\$ 7,325,000,000	\$ 580,898,000,000
2045	\$ 7,698,000,000	\$ 819,869,000,000
2050	\$ 8,091,000,000	\$ 1,141,833,000,000
2055	\$ 8,504,000,000	\$ 1,574,975,000,000
2060	\$ 8,939,000,000	\$ 2,157,013,000,000
2065	\$ 9,394,000,000	\$ 2,938,427,000,000
2070	\$ 9,874,000,000	\$ 3,986,782,000,000
2075	\$ 10,379,000,000	\$ 5,392,506,000,000
2080	\$ 10,909,000,000	\$ 7,276,607,000,000
<b>Assumptions</b>		
<b>6% Annual Return on Assets</b>		
<b>1% Annual Growth in Lottery Profits</b>		



These cumulative profits are provided only for illustrative purposes and are unlikely to actually accrue in the future. Recall, Thinking Outside the Boxe has proposed that the funds generated by the National Social Security Lottery be used to pay for the transition to personal accounts for younger workers. Under both scenarios, the Lottery would repay the estimated \$664-\$754 billion in financing costs associated with the transition to personal accounts by 2045. In addition, Thinking Outside the Boxe believes that, despite the tremendous potential profits of the Lottery, the accumulated profits accruing to the Lottery's assets would extend Social Security's solvency under the current system by only two or three years.

Thinking Outside the Boxe, based on its own research and analysis, does not believe the National Social Security Lottery would be able to save the current Social Security system without additional reform measures. Therefore, we believe the National Social Security Lottery should be part of a comprehensive plan to permanently reform the Social Security system to ensure its long-term economic viability and stability.

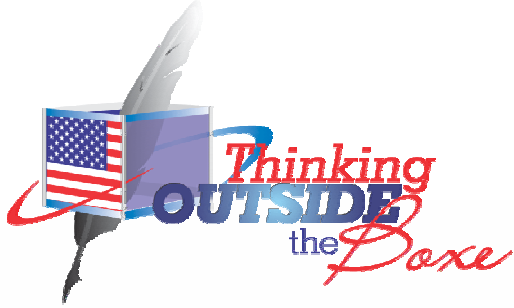
### ***Increasing the Payroll Tax***

Thinking Outside the Boxe typically opposes tax increases or additional tax burdens on the American public. In this case, however, we believe that a 2% increase in the payroll tax, phased in over ten years, is appropriate and necessary to provide for the long-term economic viability and stability of the Social Security system, even as part of a comprehensive plan to reform the current system. As the Social Security Trustees indicated, an immediate increase in the payroll tax by 1.92% would avoid the system's insolvency in roughly 2042.

*According to The 2005 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds:*

*Based on the Trustees' best estimate, program cost will exceed tax revenues starting in 2017 and throughout the remainder of the 75-year projection period. Social Security's combined trust funds are projected to allow full payment of benefits until they become exhausted in 2041...*

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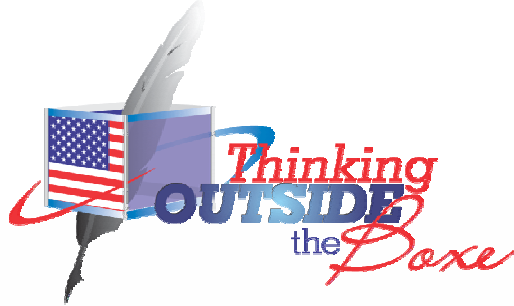


*Over the full 75-year projection period the actuarial deficit estimated for the combined trust funds is 1.92 percent of taxable payroll—slightly higher than the 1.89 percent deficit projected in last year's report. This deficit indicates that financial adequacy of the program for the next 75 years could be restored if the Social Security payroll tax were immediately and permanently increased from its current level of 12.4 percent (for employees and employers combined) to 14.32 percent.*

However, this increase would likely only be part of the solution; other increases would likely be required in the distant future (perhaps in the 2070s) as the number of retirees continues to increase, necessitating an increased payout of the Trust's assets.

In addition, the payroll tax has been increase twenty times since the Social Security system was founded. The most recent increase occurred in 1983 at the recommendation of Alan Greenspan, then head of the Commission on Social Security. It is not unfounded, then, for Thinking Outside the Boxe to propose an increase in the payroll tax, particularly since our proposal is for a minimal increase in that tax. Weighing the pros and cons of such an action against the totality of the situation, Thinking Outside the Boxe believes that this increase in the payroll tax is necessary as part of a comprehensive plan to reform the Social Security system to ensure its long-term survival and adequacy for future generations.

Thinking Outside the Boxe believes that a 2% increase over the next decade would not have an adverse impact upon small businesses or employees alike. For example, an employee earning \$50,000 would have an additional tax burden of only \$500 once the payroll tax increase was in full effect; the employer would also have an additional \$500 tax burden once the increases were in full effect. In the first year (2007 under our assumptions), the payroll tax would increase by 0.20%, representing an additional increase of \$50 per \$50,000 worker and the employer. In the second year, the additional payroll taxes would equal \$100 for the worker and the employer, each.



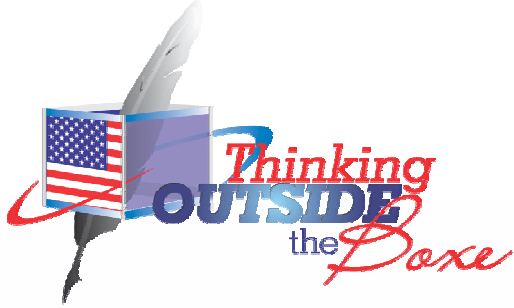
The additional revenues provided by this increase in the payroll tax are provided in the following table. The complete projections are included as APPENDIX 5.

SUMMARY INCREASE IN PAYROLL TAX PROJECTIONS					
Year	Taxable Payroll (in \$ billions)	Incremental Change in Payroll Tax	Incremental Change	Incremental Change 2005 Constant Dollars	Payroll Tax
2005	\$4,730	0.00%	\$0.00	\$0.00	12.40%
2006	\$4,985	0.00%	\$0.00	\$0.00	12.40%
2007	\$5,244	0.20%	\$10.49	\$10.01	12.60%
2008	\$5,511	0.40%	\$22.04	\$20.46	12.80%
2009	\$5,784	0.60%	\$34.70	\$31.34	13.00%
2010	\$6,065	0.80%	\$48.52	\$42.62	13.20%
2011	\$6,354	1.00%	\$63.54	\$54.29	13.40%
2012	\$6,646	1.20%	\$79.75	\$66.28	13.60%
2013	\$6,946	1.40%	\$97.24	\$78.62	13.80%
2014	\$7,258	1.60%	\$116.13	\$91.32	14.00%
2015	\$7,583	1.80%	\$136.49	\$104.42	14.20%
2016	\$7,919	2.00%	\$158.38	\$117.86	14.40%
2017	\$8,268	2.00%	\$165.36	\$119.70	14.40%
2018	\$8,630	2.00%	\$172.60	\$121.54	14.40%
2019	\$9,005	2.00%	\$180.10	\$123.37	14.40%
2020	\$9,391	2.00%	\$187.82	\$125.15	14.40%
2025	\$11,545	2.00%	\$230.90	\$134.02	14.40%
2030	\$14,166	2.00%	\$283.32	\$143.24	14.40%
2035	\$17,418	2.00%	\$348.36	\$153.40	14.40%
2040	\$21,442	2.00%	\$428.84	\$164.49	14.40%
2045	\$26,386	2.00%	\$527.72	\$176.31	14.40%
2050	\$32,374	2.00%	\$647.48	\$188.42	14.40%
2055	\$39,682	2.00%	\$793.64	\$201.17	14.40%
2060	\$48,600	2.00%	\$972.00	\$214.61	14.40%
2065	\$59,520	2.00%	\$1,190.40	\$228.93	14.40%
2070	\$72,868	2.00%	\$1,457.36	\$244.13	14.40%
2075	\$89,221	2.00%	\$1,784.42	\$260.36	14.40%
2080	\$109,174	2.00%	\$2,183.48	\$277.50	14.40%

Once again, Thinking Outside the Boxe believes this minimal increase in the payroll tax, phased in over the next decade, is necessary as part of a comprehensive plan to reform the current Social Security system. By itself, we do not believe that a phased in increase in the payroll tax is enough to maintain the current Social Security system. Though we strongly oppose increases in the tax burden on the American public, we believe this is crucial to ensuring a stable, economically viable Social Security system for future generations. In addition, Thinking

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Outside the Boxe believes that our proposed minimal increase in the payroll tax may also provide additional funds for savings for younger workers who choose personal accounts in the future, assuming this system is implemented. Over the long-term, the contributions that individual workers may make to their voluntary personal retirement accounts could be increased, so that the workers' portion of this minimal increase in payroll tax is ultimately diverted to their own personal accounts.

### ***Increasing the Retirement Age***

Americans are living longer, healthier lives due to significant advances in medical technology. In addition, as Alan Greenspan mentioned in Congressional testimony, jobs have become less physically demanding and more intellectual over recent decades. As such, Americans are able to work much later in life at more sedate jobs requiring use of mental faculties rather than physical attributes. Therefore, Thinking Outside the Boxe believes that it is appropriate to increase the retirement age for younger workers (those born after 1970) who do not elect to participate in the personal accounts program by one year from 65 to 66.

This only means that workers born after 1970 would be eligible for Social Security benefits at the age of 66. Younger workers could retire early, of course, if they have pensions from employers or have saved enough in retirement accounts such as IRAs to enjoy retirement prior to receipt of Social Security benefits. This increase in the retirement age by one year, applicable to younger workers not participating in the voluntary personal accounts, may ultimately increase the savings rate of these workers and encourage participation in the voluntary personal account program.

National saving, as Alan Greenspan also noted in Congressional testimony, is essential to providing for the long-term stability of our standard of living:

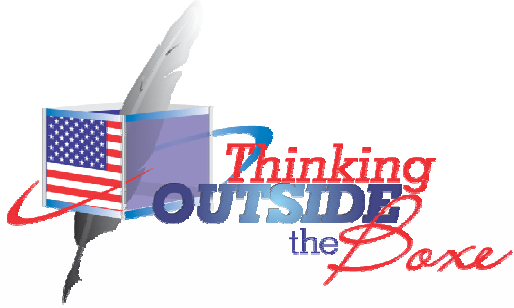
*Raising national saving is an essential step if we are to build a capital stock that by, say, 2030 will be sufficiently large to produce goods and services adequate to meet the needs of retirees without unduly curbing the standard of living of our working-age population.*

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Thinking Outside the Boxe has not made any projections regarding the impact upon the Social Security system from increasing the retirement age at which workers born after 1970 are eligible to receive Social Security benefits by one year to 66. We believe that the impact upon the system from this increase in the retirement age would be moderate.

Thinking Outside the Boxe believes this is an important part of its comprehensive plan to reform the Social Security System in conjunction with its other proposals. In addition, this proposal may serve as a good incentive for workers to participate in the voluntary personal accounts that we endorse as a means of ensuring the long-term viability of the Social Security system. However, Thinking Outside the Boxe does not believe it is unreasonable to increase the retirement age for all workers born after 1970, whether or not they participate in the voluntary personal accounts program.

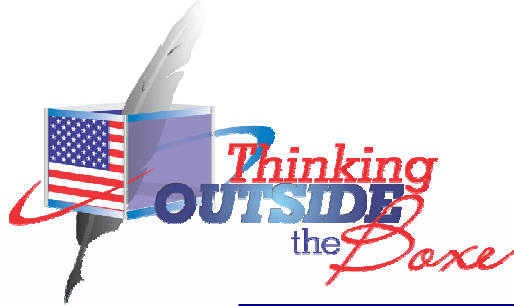
***Decreasing Social Security Benefits for Individuals  
Receiving Defined Benefit Pensions***

Based on the Private Pension Plan Bulletin from 1999<sup>18</sup> issued by the U.S. Department of Labor, there were over 41.4 million total participants and over 22.6 million active participants in defined benefit pension plans in the United States. In 1999 there were approximately 10.8 million plan participants receiving \$119.4 billion in benefits from defined benefit pension plans. Thinking Outside the Boxe believes that those individuals receiving benefits under a defined benefit pension plan in excess of \$50,000 should receive a reduced Social Security benefit.

To begin this analysis, Thinking Outside the Boxe assumes the following with respect to the distribution of plan participants and the benefits they receive.

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<sup>18</sup> *Private Pension Plan Bulletin Abstract of 1999 Form 5500 Annual Reports*, U.S. Department of Labor, Employee Benefits Security Administration, Summer 2004.



Defined Benefit Plan Distribution Assumptions		
% w/DB Benefits		
>\$90,000	5%	539,000
\$70,000-\$89,999	15%	1,617,000
\$50,000-\$69,999	20%	2,156,000
<\$50,000	60%	6,467,000
	100%	10,779,000

Under our proposal, only those individuals receiving benefits over \$50,000 annually would be subject to reduced Social Security benefits. Those receiving benefits in excess of \$90,000 per year would see their Social Security benefits reduced by 25%. Those in the \$70,000-\$89,999 benefit range would have their Social Security benefits reduced by 20%, and those with benefits between \$50,000 and \$69,999 would receive Social Security benefits reduced by 15%. The following table provides our assumptions regarding the current Social Security benefits received by these individuals and illustrates the impact of Thinking Outside the Boxe's proposed reductions.

Proposed Reduction in Social Security Benefits				
Defined Benefit Range	Social Security Benefits	Percentage Reduction	Dollar Reduction	
>\$90,000	\$ 35,000	25%	\$	8,750
\$70,000-\$89,999	\$ 30,000	20%	\$	6,000
\$50,000-\$69,999	\$ 25,000	15%	\$	3,750
<\$50,000	\$ 20,000	0%	\$	-

Based on the number of individuals receiving benefits under defined benefit plans (from previously stated 1999 U.S. Department of Labor data), a reduction in benefits such as that proposed could potentially reduce the Social Security system's annual costs by roughly \$22.5 billion. The following table provides this estimation.

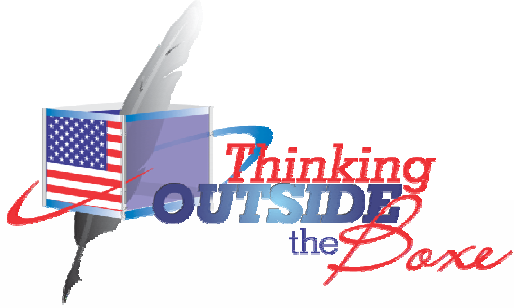
Proposed Reduction in Social Security Benefits				
Defined Benefit Range	Number of Beneficiaries	Proposed \$ Reduction	Aggregate Social Security Reduction	
>\$90,000	539,000	\$ 8,750	\$	4,716,250,000
\$70,000-\$89,999	1,617,000	\$ 6,000	\$	9,702,000,000
\$50,000-\$69,999	2,156,000	\$ 3,750	\$	8,085,000,000
<\$50,000	6,467,000	\$ -	\$	-
<b>Total Annual social Security Cost Savings</b>			<b>\$ 22,503,250,000</b>	

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These annual cost savings could be used to pay for the transition to voluntary personal accounts for younger workers, estimated to cost over \$664 billion over ten years, or could be used to shore up the financial conditions of Medicare or Medicaid.

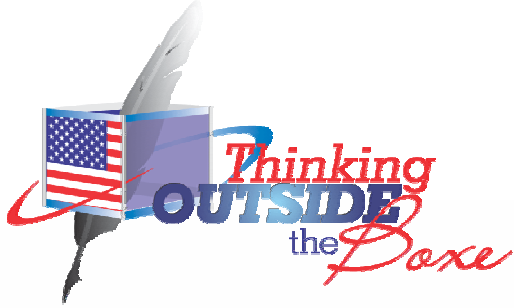
We recognize that this proposal, in and of itself, is also not enough to stabilize the entire Social Security system in the long-term. However, the declining popularity of defined benefit pension plans may ultimately make this facet of the proposal less significant as defined benefit pension plans are phased out or wound down and eliminated. Despite this, Thinking Outside the Boxe maintains that this portion of its proposal is a feasible part of the overall, comprehensive reform for the current Social Security system.

Thinking Outside the Boxe believes this reduction in Social Security benefits to the highest earners in defined benefit pension plans is fair. Further, we believe that these high income earners would be largely unaffected financially by the reduction in their Social Security benefits under this proposal. This reduction in Social Security benefits could also be seen as a small sacrifice by individuals most likely able to afford it to help ensure the long-term viability of the Social Security system for future generations.

## **Conclusion**

Thinking Outside the Boxe, like many others, recognizes that there is a major crisis looming for the current Social Security system. Without substantial reforms, the system as we know it will not be around for today's younger workers in just a matter of thirty five years or so. Relegating responsibility for solving the problem to the next administration, another Congress, or the next generation only denotes failure on our parts. Further, postponing reform of the system creates additional problems, some profound, for the Social Security system and those seeking to fix it in the future. Therefore, we should strive to address these challenges today, in the immediate future, so that future generations and younger workers have adequate time to adjust and prepare for their eventual retirement.

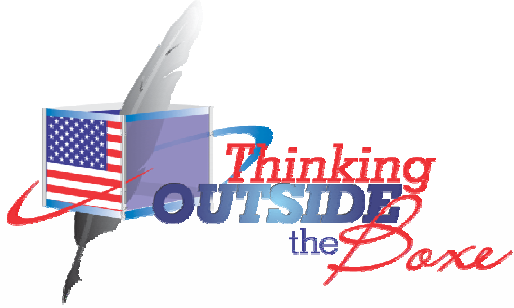
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The President's Commission to Strengthen Social Security was charged with making recommendations for potentially reforming the Social Security system so that it was financially strong and stable for the 21<sup>st</sup> century. *The Interim Report of the President's Commission to Strengthen Social Security* (August 2001) indicates the following with respect to assessing prospective reform proposals:

*The Commission has established eight criteria by which to evaluate proposals for strengthening the Social Security system:*

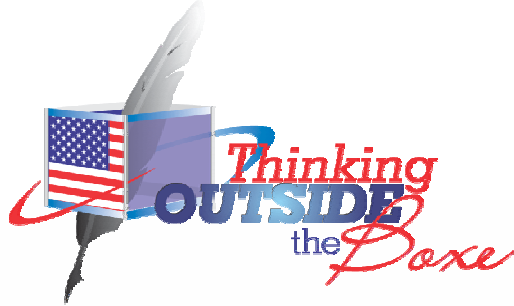
- 1. Encouragement of workers' and families' efforts to build personal retirement wealth, giving citizens a legal right to a portion of their benefits.*
- 2. Equity of lifetime Social Security taxes and benefits, both between and within generations.*
- 3. Adequacy of protection against income loss due to retirement, disability, death of an earner, or unexpected longevity.*
- 4. Encouragement of increased personal and national saving.*
- 5. Rewarding individuals for actively participating in the workforce.*
- 6. Movement of the Social Security system toward a fiscally sustainable course that reduces pressure on the remainder of the federal budget and can withstand economic and demographic changes.*
- 7. Practicality and suitability to successful implementation at reasonable cost.*
- 8. Transparency: Analysis of reform plans should measure all necessary sources of tax revenue, and all benefits provided, including those from the traditional system as well as from personal accounts.*



Thinking Outside the Boxe believes that its reform proposal is in accordance with these eight guidelines. We believe that our proposal, whilst far from perfect, offers many attractive options for permanently reforming the Social Security system and ensuring the long-term economic sustainability and stability of the system for today's workers and future generations. Further, our proposal aims to address paying for the transition to voluntary personal accounts with as little adverse impact upon the Federal government finances as possible. Though many may criticize our comprehensive reform proposal, we have made a genuine effort to clearly delineate the problems facing the system and to identify potential solutions to Social Security's long-term stability and financial solvency.

Thinking Outside the Boxe would gladly welcome other recommendations or options to creatively reform the system and pay for the transition to voluntary personal accounts that do not have an adverse economic impact upon the Treasury, the Social Security system, and the taxpayers. Thinking Outside the Boxe will, of course, continue to examine this issue in the future and will monitor developments as they occur. We hope to be a voice, a proponent, an advocate of reform of the Social Security system—reform that must occur sooner rather than later.

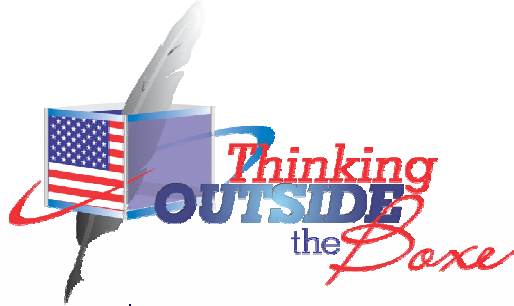
As FDR and the Congress were visionary in the 1930s when they established the Social Security system, Americans must now be just as visionary in addressing the changing requirements of the system in order to provide stability going forward to the 48 million people receiving benefits currently and the many millions more anticipating collecting benefits in the future. Protecting Social Security for future generations will require difficult decisions on behalf of policymakers and taxpayers alike. These decisions are not likely to be easy and must be undertaken with great care and jurisprudence. In crafting a reform of the Social Security system, all possible options and alternatives must be carefully weighed so that the best interests of current workers and future generations are protected.



## APPENDIX 1

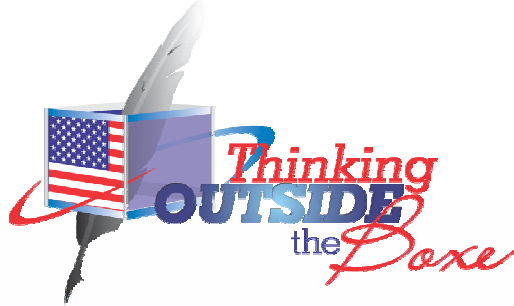
OASI & DI Trust Funds in 2005 Constant Dollars					
Year	Total Income (in billions)	Cost	Surplus/ Deficit	Assets at Year End	
2005	\$ 689.9	\$ 526.6	\$ 163.3	\$	1,850.1
2006	\$ 720.3	\$ 536.7	\$ 183.6	\$	1,994.7
2007	\$ 742.4	\$ 547.7	\$ 194.7	\$	2,138.8
2008	\$ 766.4	\$ 562.1	\$ 204.3	\$	2,285.1
2009	\$ 787.4	\$ 581.1	\$ 206.3	\$	2,429.3
2010	\$ 810.3	\$ 599.4	\$ 210.9	\$	2,573.8
2011	\$ 835.2	\$ 620.1	\$ 215.1	\$	2,718.6
2012	\$ 857.8	\$ 644.6	\$ 213.2	\$	2,857.8
2013	\$ 879.1	\$ 670.1	\$ 209.0	\$	2,989.0
2014	\$ 899.6	\$ 697.1	\$ 202.5	\$	3,110.0
2015	\$ 920.8	\$ 724.5	\$ 196.3	\$	3,221.6
2016	\$ 941.5	\$ 753.5	\$ 188.0	\$	3,321.8
2017	\$ 961.6	\$ 783.6	\$ 178.0	\$	3,409.4
2018	\$ 981.1	\$ 814.2	\$ 166.9	\$	3,483.3
2019	\$ 999.9	\$ 845.6	\$ 154.3	\$	3,542.8
2020	\$ 1,015.6	\$ 877.9	\$ 137.7	\$	3,584.0
2021	\$ 1,030.4	\$ 910.6	\$ 119.8	\$	3,606.1
2022	\$ 1,043.8	\$ 943.2	\$ 100.6	\$	3,608.6
2023	\$ 1,056.2	\$ 975.9	\$ 80.3	\$	3,590.6
2024	\$ 1,067.2	\$ 1,008.7	\$ 58.5	\$	3,551.3
2025	\$ 1,077.0	\$ 1,041.7	\$ 35.3	\$	3,489.8
2026	\$ 1,085.6	\$ 1,074.0	\$ 11.6	\$	3,405.4
2027	\$ 1,093.3	\$ 1,107.6	\$ (14.3)	\$	3,298.3
2028	\$ 1,100.1	\$ 1,139.3	\$ (39.2)	\$	3,169.2
2029	\$ 1,105.5	\$ 1,169.5	\$ (64.0)	\$	3,018.8
2030	\$ 1,109.7	\$ 1,199.0	\$ (89.3)	\$	2,847.2
2031	\$ 1,113.0	\$ 1,228.3	\$ (115.3)	\$	2,654.4
2032	\$ 1,115.6	\$ 1,256.7	\$ (141.1)	\$	2,441.0
2033	\$ 1,117.3	\$ 1,283.6	\$ (166.3)	\$	2,208.2
2034	\$ 1,118.0	\$ 1,308.7	\$ (190.7)	\$	1,957.4
2035	\$ 1,117.7	\$ 1,332.6	\$ (214.9)	\$	1,689.2
2036	\$ 1,116.5	\$ 1,355.8	\$ (239.3)	\$	1,403.9
2037	\$ 1,114.7	\$ 1,378.2	\$ (263.5)	\$	1,102.2
2038	\$ 1,112.3	\$ 1,399.6	\$ (287.3)	\$	784.8
2039	\$ 1,109.2	\$ 1,420.3	\$ (311.1)	\$	452.4
2040	\$ 1,105.3	\$ 1,440.8	\$ (335.5)	\$	104.6
2041	\$ 1,105.9	\$ 1,461.2	\$ (355.3)	\$	(250.7)
2042	\$ 1,122.3	\$ 1,482.6	\$ (360.3)	\$	(611.0)
2043	\$ 1,138.1	\$ 1,504.4	\$ (366.2)	\$	(977.2)
2044	\$ 1,154.0	\$ 1,525.4	\$ (371.3)	\$	(1,348.6)
2045	\$ 1,169.8	\$ 1,547.1	\$ (377.3)	\$	(1,725.9)
2046	\$ 1,185.6	\$ 1,568.9	\$ (383.3)	\$	(2,109.2)
2047	\$ 1,201.6	\$ 1,591.9	\$ (390.3)	\$	(2,499.4)
2048	\$ 1,218.8	\$ 1,615.2	\$ (396.5)	\$	(2,895.9)

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2049	\$	1,235.0	\$	1,638.5	\$	(403.6)	\$	(3,299.5)
2050	\$	1,251.1	\$	1,661.9	\$	(410.8)	\$	(3,710.3)
2051	\$	1,267.6	\$	1,687.6	\$	(420.0)	\$	(4,130.3)
2052	\$	1,285.3	\$	1,712.8	\$	(427.5)	\$	(4,557.7)
2053	\$	1,302.2	\$	1,739.2	\$	(437.0)	\$	(4,994.7)
2054	\$	1,319.5	\$	1,767.2	\$	(447.8)	\$	(5,442.5)
2055	\$	1,337.8	\$	1,794.4	\$	(456.7)	\$	(5,899.2)
2056	\$	1,355.2	\$	1,822.9	\$	(467.7)	\$	(6,366.9)
2057	\$	1,372.9	\$	1,852.9	\$	(480.0)	\$	(6,846.9)
2058	\$	1,391.8	\$	1,882.2	\$	(490.4)	\$	(7,337.3)
2059	\$	1,409.9	\$	1,912.0	\$	(502.1)	\$	(7,839.4)
2060	\$	1,428.2	\$	1,942.2	\$	(514.0)	\$	(8,353.4)
2061	\$	1,447.7	\$	1,973.8	\$	(526.0)	\$	(8,879.4)
2062	\$	1,466.6	\$	2,006.1	\$	(539.5)	\$	(9,418.9)
2063	\$	1,485.7	\$	2,039.0	\$	(553.2)	\$	(9,972.1)
2064	\$	1,506.2	\$	2,072.3	\$	(566.1)	\$	(10,538.3)
2065	\$	1,525.8	\$	2,106.2	\$	(580.3)	\$	(11,118.6)
2066	\$	1,546.4	\$	2,139.9	\$	(593.5)	\$	(11,712.1)
2067	\$	1,566.1	\$	2,174.2	\$	(608.1)	\$	(12,320.2)
2068	\$	1,586.5	\$	2,208.5	\$	(622.0)	\$	(12,942.2)
2069	\$	1,608.5	\$	2,244.7	\$	(636.2)	\$	(13,578.4)
2070	\$	1,629.5	\$	2,278.9	\$	(649.4)	\$	(14,227.8)
2071	\$	1,650.7	\$	2,314.7	\$	(664.0)	\$	(14,891.8)
2072	\$	1,673.3	\$	2,350.9	\$	(677.6)	\$	(15,569.4)
2073	\$	1,695.0	\$	2,386.5	\$	(691.5)	\$	(16,260.8)
2074	\$	1,717.1	\$	2,422.7	\$	(705.6)	\$	(16,966.4)
2075	\$	1,739.2	\$	2,460.4	\$	(721.2)	\$	(17,687.6)
2076	\$	1,762.9	\$	2,497.4	\$	(734.4)	\$	(18,422.1)
2077	\$	1,785.6	\$	2,536.1	\$	(750.5)	\$	(19,172.6)
2078	\$	1,808.5	\$	2,574.0	\$	(765.6)	\$	(19,938.2)
2079	\$	1,831.7	\$	2,613.9	\$	(782.3)	\$	(20,720.4)
2080	\$	1,856.5	\$	2,652.9	\$	(796.4)	\$	(21,516.9)

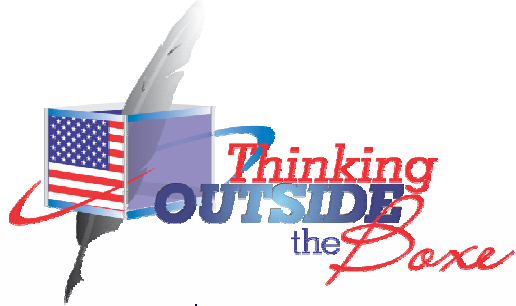
The 2005 Annual Report of the Board of Trustees of the Federal  
Old-Age & Survivors Insurance & Disability Insurance Trust Funds



## APPENDIX 2

NATIONAL SOCIAL SECURITY LOTTERY PROJECTIONS SCENARIO 1		
Year	Lottery Profits	Cumulative Funds Generated
2008	\$ 9,029,555,000	\$ 9,029,555,000
2009	\$ 9,120,000,000	\$ 18,691,328,300
2010	\$ 9,211,000,000	\$ 29,024,000,000
2011	\$ 9,303,000,000	\$ 40,068,000,000
2012	\$ 9,396,000,000	\$ 51,868,000,000
2013	\$ 9,490,000,000	\$ 64,470,000,000
2014	\$ 9,585,000,000	\$ 77,923,000,000
2015	\$ 9,681,000,000	\$ 92,279,000,000
2016	\$ 9,778,000,000	\$ 107,594,000,000
2017	\$ 9,876,000,000	\$ 123,926,000,000
2018	\$ 9,975,000,000	\$ 141,337,000,000
2019	\$ 10,075,000,000	\$ 159,892,000,000
2020	\$ 10,176,000,000	\$ 179,662,000,000
2021	\$ 10,278,000,000	\$ 200,720,000,000
2022	\$ 10,381,000,000	\$ 223,144,000,000
2023	\$ 10,485,000,000	\$ 247,018,000,000
2024	\$ 10,590,000,000	\$ 272,429,000,000
2025	\$ 10,696,000,000	\$ 299,471,000,000
2026	\$ 10,803,000,000	\$ 328,242,000,000
2027	\$ 10,911,000,000	\$ 358,848,000,000
2028	\$ 11,020,000,000	\$ 391,399,000,000
2029	\$ 11,130,000,000	\$ 426,013,000,000
2030	\$ 11,241,000,000	\$ 462,815,000,000
2031	\$ 11,353,000,000	\$ 501,937,000,000
2032	\$ 11,467,000,000	\$ 543,520,000,000
2033	\$ 11,582,000,000	\$ 587,713,000,000
2034	\$ 11,698,000,000	\$ 634,674,000,000
2035	\$ 11,815,000,000	\$ 684,569,000,000
2036	\$ 11,933,000,000	\$ 737,576,000,000
2037	\$ 12,052,000,000	\$ 793,883,000,000
2038	\$ 12,173,000,000	\$ 853,689,000,000
2039	\$ 12,295,000,000	\$ 917,205,000,000
2040	\$ 12,418,000,000	\$ 984,655,000,000
2041	\$ 12,542,000,000	\$ 1,056,276,000,000
2042	\$ 12,667,000,000	\$ 1,132,320,000,000
2043	\$ 12,794,000,000	\$ 1,213,053,000,000
2044	\$ 12,922,000,000	\$ 1,298,758,000,000
2045	\$ 13,051,000,000	\$ 1,389,734,000,000
2046	\$ 13,182,000,000	\$ 1,486,300,000,000
2047	\$ 13,314,000,000	\$ 1,588,792,000,000
2048	\$ 13,447,000,000	\$ 1,697,567,000,000
2049	\$ 13,581,000,000	\$ 1,813,002,000,000
2050	\$ 13,717,000,000	\$ 1,935,499,000,000

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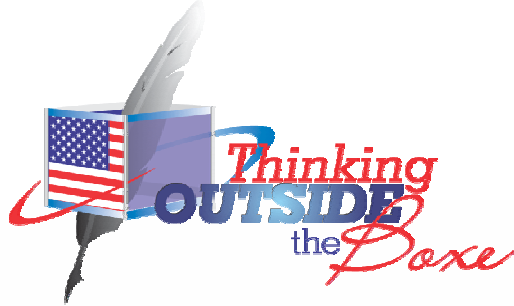


2051	\$ 13,854,000,000	\$ 2,065,483,000,000
2052	\$ 13,993,000,000	\$ 2,203,405,000,000
2053	\$ 14,133,000,000	\$ 2,349,742,000,000
2054	\$ 14,274,000,000	\$ 2,505,001,000,000
2055	\$ 14,417,000,000	\$ 2,669,718,000,000
2056	\$ 14,561,000,000	\$ 2,844,462,000,000
2057	\$ 14,707,000,000	\$ 3,029,837,000,000
2058	\$ 14,854,000,000	\$ 3,226,481,000,000
2059	\$ 15,003,000,000	\$ 3,435,073,000,000
2060	\$ 15,153,000,000	\$ 3,656,330,000,000
2061	\$ 15,305,000,000	\$ 3,891,015,000,000
2062	\$ 15,458,000,000	\$ 4,139,934,000,000
2063	\$ 15,613,000,000	\$ 4,403,943,000,000
2064	\$ 15,769,000,000	\$ 4,683,949,000,000
2065	\$ 15,927,000,000	\$ 4,980,913,000,000
2066	\$ 16,086,000,000	\$ 5,295,854,000,000
2067	\$ 16,247,000,000	\$ 5,629,852,000,000
2068	\$ 16,409,000,000	\$ 5,984,052,000,000
2069	\$ 16,573,000,000	\$ 6,359,668,000,000
2070	\$ 16,739,000,000	\$ 6,757,987,000,000
2071	\$ 16,906,000,000	\$ 7,180,372,000,000
2072	\$ 17,075,000,000	\$ 7,628,269,000,000
2073	\$ 17,246,000,000	\$ 8,103,211,000,000
2074	\$ 17,418,000,000	\$ 8,606,822,000,000
2075	\$ 17,592,000,000	\$ 9,140,823,000,000
2076	\$ 17,768,000,000	\$ 9,707,040,000,000
2077	\$ 17,946,000,000	\$ 10,307,408,000,000
2078	\$ 18,125,000,000	\$ 10,943,977,000,000
2079	\$ 18,306,000,000	\$ 11,618,922,000,000
2080	\$ 18,489,000,000	\$ 12,334,546,000,000

**Assumptions**

**6% Annual Return on Assets**

**1% Annual Growth in Lottery Profits**



## APPENDIX 3

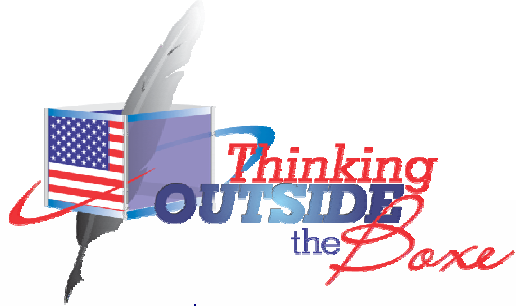
NATIONAL SOCIAL SECURITY LOTTERY PROJECTIONS SCENARIO 2		
Year	Lottery Profits	Cumulative Funds Generated
2008	\$ 5,328,000,000	
2009	\$ 5,381,000,000	\$ 11,028,680,000
2010	\$ 5,435,000,000	\$ 17,125,000,000
2011	\$ 5,489,000,000	\$ 23,642,000,000
2012	\$ 5,544,000,000	\$ 30,605,000,000
2013	\$ 5,599,000,000	\$ 38,040,000,000
2014	\$ 5,655,000,000	\$ 45,977,000,000
2015	\$ 5,712,000,000	\$ 54,448,000,000
2016	\$ 5,769,000,000	\$ 63,484,000,000
2017	\$ 5,827,000,000	\$ 73,120,000,000
2018	\$ 5,885,000,000	\$ 83,392,000,000
2019	\$ 5,944,000,000	\$ 94,340,000,000
2020	\$ 6,003,000,000	\$ 106,003,000,000
2021	\$ 6,063,000,000	\$ 118,426,000,000
2022	\$ 6,124,000,000	\$ 131,656,000,000
2023	\$ 6,185,000,000	\$ 145,740,000,000
2024	\$ 6,247,000,000	\$ 160,731,000,000
2025	\$ 6,309,000,000	\$ 176,684,000,000
2026	\$ 6,372,000,000	\$ 193,657,000,000
2027	\$ 6,436,000,000	\$ 211,712,000,000
2028	\$ 6,500,000,000	\$ 230,915,000,000
2029	\$ 6,565,000,000	\$ 251,335,000,000
2030	\$ 6,631,000,000	\$ 273,046,000,000
2031	\$ 6,697,000,000	\$ 296,126,000,000
2032	\$ 6,764,000,000	\$ 320,658,000,000
2033	\$ 6,832,000,000	\$ 346,729,000,000
2034	\$ 6,900,000,000	\$ 374,433,000,000
2035	\$ 6,969,000,000	\$ 403,868,000,000
2036	\$ 7,039,000,000	\$ 435,139,000,000
2037	\$ 7,109,000,000	\$ 468,356,000,000
2038	\$ 7,180,000,000	\$ 503,637,000,000
2039	\$ 7,252,000,000	\$ 541,107,000,000
2040	\$ 7,325,000,000	\$ 580,898,000,000
2041	\$ 7,398,000,000	\$ 623,150,000,000
2042	\$ 7,472,000,000	\$ 668,011,000,000
2043	\$ 7,547,000,000	\$ 715,639,000,000
2044	\$ 7,622,000,000	\$ 766,199,000,000
2045	\$ 7,698,000,000	\$ 819,869,000,000
2046	\$ 7,775,000,000	\$ 876,836,000,000
2047	\$ 7,853,000,000	\$ 937,299,000,000
2048	\$ 7,932,000,000	\$ 1,001,469,000,000
2049	\$ 8,011,000,000	\$ 1,069,568,000,000
2050	\$ 8,091,000,000	\$ 1,141,833,000,000

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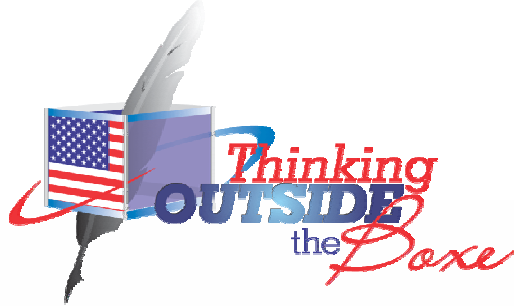
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2051	\$	8,172,000,000	\$	1,218,515,000,000
2052	\$	8,254,000,000	\$	1,299,880,000,000
2053	\$	8,337,000,000	\$	1,386,210,000,000
2054	\$	8,420,000,000	\$	1,477,803,000,000
2055	\$	8,504,000,000	\$	1,574,975,000,000
2056	\$	8,589,000,000	\$	1,678,063,000,000
2057	\$	8,675,000,000	\$	1,787,422,000,000
2058	\$	8,762,000,000	\$	1,903,429,000,000
2059	\$	8,850,000,000	\$	2,026,485,000,000
2060	\$	8,939,000,000	\$	2,157,013,000,000
2061	\$	9,028,000,000	\$	2,295,462,000,000
2062	\$	9,118,000,000	\$	2,442,308,000,000
2063	\$	9,209,000,000	\$	2,598,055,000,000
2064	\$	9,301,000,000	\$	2,763,239,000,000
2065	\$	9,394,000,000	\$	2,938,427,000,000
2066	\$	9,488,000,000	\$	3,124,221,000,000
2067	\$	9,583,000,000	\$	3,321,257,000,000
2068	\$	9,679,000,000	\$	3,530,211,000,000
2069	\$	9,776,000,000	\$	3,751,800,000,000
2070	\$	9,874,000,000	\$	3,986,782,000,000
2071	\$	9,973,000,000	\$	4,235,962,000,000
2072	\$	10,073,000,000	\$	4,500,193,000,000
2073	\$	10,174,000,000	\$	4,780,379,000,000
2074	\$	10,276,000,000	\$	5,077,478,000,000
2075	\$	10,379,000,000	\$	5,392,506,000,000
2076	\$	10,483,000,000	\$	5,726,539,000,000
2077	\$	10,588,000,000	\$	6,080,719,000,000
2078	\$	10,694,000,000	\$	6,456,256,000,000
2079	\$	10,801,000,000	\$	6,854,432,000,000
2080	\$	10,909,000,000	\$	7,276,607,000,000

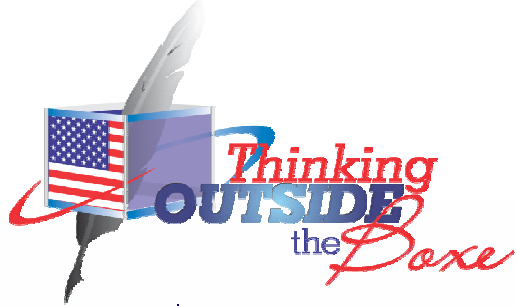
**Assumptions**  
**6% Annual Return on Assets**  
**1% Annual Growth in Lottery Profits**



## APPENDIX 4

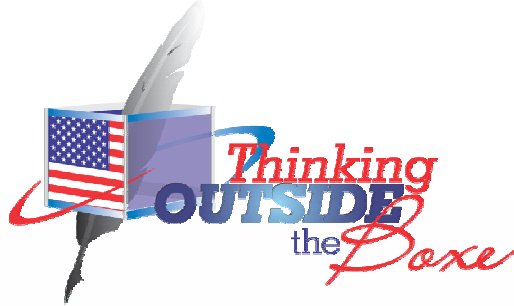
NATIONAL SOCIAL SECURITY LOTTERY PROJECTIONS		
SCENARIO 1a		
Year	Lottery Profits	Cumulative Funds Generated
2008	\$ 9,029,555,000	
2009	\$ 9,120,000,000	\$ 18,871,919,400
2010	\$ 9,211,000,000	\$ 29,593,000,000
2011	\$ 9,303,000,000	\$ 41,263,000,000
2012	\$ 9,396,000,000	\$ 53,960,000,000
2013	\$ 9,490,000,000	\$ 67,767,000,000
2014	\$ 9,585,000,000	\$ 82,773,000,000
2015	\$ 9,681,000,000	\$ 99,076,000,000
2016	\$ 9,778,000,000	\$ 116,780,000,000
2017	\$ 9,876,000,000	\$ 135,998,000,000
2018	\$ 9,975,000,000	\$ 156,853,000,000
2019	\$ 10,075,000,000	\$ 179,476,000,000
2020	\$ 10,176,000,000	\$ 204,010,000,000
2021	\$ 10,278,000,000	\$ 230,609,000,000
2022	\$ 10,381,000,000	\$ 259,439,000,000
2023	\$ 10,485,000,000	\$ 290,679,000,000
2024	\$ 10,590,000,000	\$ 324,523,000,000
2025	\$ 10,696,000,000	\$ 361,181,000,000
2026	\$ 10,803,000,000	\$ 400,878,000,000
2027	\$ 10,911,000,000	\$ 443,859,000,000
2028	\$ 11,020,000,000	\$ 490,388,000,000
2029	\$ 11,130,000,000	\$ 540,749,000,000
2030	\$ 11,241,000,000	\$ 595,250,000,000
2031	\$ 11,353,000,000	\$ 654,223,000,000
2032	\$ 11,467,000,000	\$ 718,028,000,000
2033	\$ 11,582,000,000	\$ 787,052,000,000
2034	\$ 11,698,000,000	\$ 861,714,000,000
2035	\$ 11,815,000,000	\$ 942,466,000,000
2036	\$ 11,933,000,000	\$ 1,029,796,000,000
2037	\$ 12,052,000,000	\$ 1,124,232,000,000
2038	\$ 12,173,000,000	\$ 1,226,344,000,000
2039	\$ 12,295,000,000	\$ 1,336,747,000,000
2040	\$ 12,418,000,000	\$ 1,456,105,000,000
2041	\$ 12,542,000,000	\$ 1,585,135,000,000
2042	\$ 12,667,000,000	\$ 1,724,613,000,000
2043	\$ 12,794,000,000	\$ 1,875,376,000,000
2044	\$ 12,922,000,000	\$ 2,038,328,000,000
2045	\$ 13,051,000,000	\$ 2,214,445,000,000
2046	\$ 13,182,000,000	\$ 2,404,783,000,000
2047	\$ 13,314,000,000	\$ 2,610,480,000,000
2048	\$ 13,447,000,000	\$ 2,832,765,000,000
2049	\$ 13,581,000,000	\$ 3,072,967,000,000
2050	\$ 13,717,000,000	\$ 3,332,521,000,000

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2051	\$ 13,854,000,000	\$ 3,612,977,000,000
2052	\$ 13,993,000,000	\$ 3,916,008,000,000
2053	\$ 14,133,000,000	\$ 4,243,422,000,000
2054	\$ 14,274,000,000	\$ 4,597,170,000,000
2055	\$ 14,417,000,000	\$ 4,979,361,000,000
2056	\$ 14,561,000,000	\$ 5,392,271,000,000
2057	\$ 14,707,000,000	\$ 5,838,360,000,000
2058	\$ 14,854,000,000	\$ 6,320,283,000,000
2059	\$ 15,003,000,000	\$ 6,840,909,000,000
2060	\$ 15,153,000,000	\$ 7,403,335,000,000
2061	\$ 15,305,000,000	\$ 8,010,907,000,000
2062	\$ 15,458,000,000	\$ 8,667,238,000,000
2063	\$ 15,613,000,000	\$ 9,376,230,000,000
2064	\$ 15,769,000,000	\$ 10,142,097,000,000
2065	\$ 15,927,000,000	\$ 10,969,392,000,000
2066	\$ 16,086,000,000	\$ 11,863,029,000,000
2067	\$ 16,247,000,000	\$ 12,828,318,000,000
2068	\$ 16,409,000,000	\$ 13,870,992,000,000
2069	\$ 16,573,000,000	\$ 14,997,244,000,000
2070	\$ 16,739,000,000	\$ 16,213,763,000,000
2071	\$ 16,906,000,000	\$ 17,527,770,000,000
2072	\$ 17,075,000,000	\$ 18,947,067,000,000
2073	\$ 17,246,000,000	\$ 20,480,078,000,000
2074	\$ 17,418,000,000	\$ 22,135,902,000,000
2075	\$ 17,592,000,000	\$ 23,924,366,000,000
2076	\$ 17,768,000,000	\$ 25,856,083,000,000
2077	\$ 17,946,000,000	\$ 27,942,516,000,000
2078	\$ 18,125,000,000	\$ 30,196,042,000,000
2079	\$ 18,306,000,000	\$ 32,630,031,000,000
2080	\$ 18,489,000,000	\$ 35,258,922,000,000

**Assumptions**  
**8% Annual Return on Assets**  
**1% Annual Growth in Lottery Profits**



## APPENDIX 5

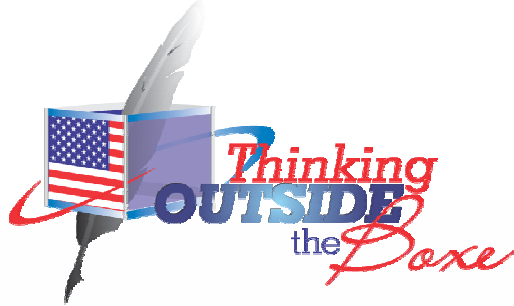
INCREASE IN PAYROLL TAX PROJECTIONS					
Year	Taxable Payroll (in \$ billions)	Incremental Change in Payroll Tax	Incremental Change	Incremental Change 2005 Constant Dollars	Payroll Tax
2005	\$4,730				12.4000%
2006	\$4,985				12.4000%
2007	\$5,244	0.20%	\$10.49	\$10.01	12.6000%
2008	\$5,511	0.40%	\$22.04	\$20.46	12.8000%
2009	\$5,784	0.60%	\$34.70	\$31.34	13.0000%
2010	\$6,065	0.80%	\$48.52	\$42.62	13.2000%
2011	\$6,354	1.00%	\$63.54	\$54.29	13.4000%
2012	\$6,646	1.20%	\$79.75	\$66.28	13.6000%
2013	\$6,946	1.40%	\$97.24	\$78.62	13.8000%
2014	\$7,258	1.60%	\$116.13	\$91.32	14.0000%
2015	\$7,583	1.80%	\$136.49	\$104.42	14.2000%
2016	\$7,919	2.00%	\$158.38	\$117.86	14.4000%
2017	\$8,268	2.00%	\$165.36	\$119.70	14.4000%
2018	\$8,630	2.00%	\$172.60	\$121.54	14.4000%
2019	\$9,005	2.00%	\$180.10	\$123.37	14.4000%
2020	\$9,391	2.00%	\$187.82	\$125.15	14.4000%
2021	\$9,794	2.00%	\$195.88	\$126.97	14.4000%
2022	\$10,209	2.00%	\$204.18	\$128.75	14.4000%
2023	\$10,640	2.00%	\$212.80	\$130.53	14.4000%
2024	\$11,085	2.00%	\$221.70	\$132.28	14.4000%
2025	\$11,545	2.00%	\$230.90	\$134.02	14.4000%
2026	\$12,024	2.00%	\$240.48	\$135.77	14.4000%
2027	\$12,527	2.00%	\$250.54	\$137.60	14.4000%
2028	\$13,054	2.00%	\$261.08	\$139.49	14.4000%
2029	\$13,599	2.00%	\$271.98	\$141.35	14.4000%
2030	\$14,166	2.00%	\$283.32	\$143.24	14.4000%
2031	\$14,758	2.00%	\$295.16	\$145.16	14.4000%
2032	\$15,381	2.00%	\$307.62	\$147.17	14.4000%
2033	\$16,033	2.00%	\$320.66	\$149.22	14.4000%
2034	\$16,714	2.00%	\$334.28	\$151.33	14.4000%
2035	\$17,418	2.00%	\$348.36	\$153.40	14.4000%
2036	\$18,153	2.00%	\$363.06	\$155.52	14.4000%
2037	\$18,923	2.00%	\$378.46	\$157.70	14.4000%
2038	\$19,728	2.00%	\$394.56	\$159.94	14.4000%
2039	\$20,569	2.00%	\$411.38	\$162.21	14.4000%
2040	\$21,442	2.00%	\$428.84	\$164.49	14.4000%
2041	\$22,353	2.00%	\$447.06	\$166.81	14.4000%
2042	\$23,302	2.00%	\$466.04	\$169.15	14.4000%
2043	\$24,292	2.00%	\$485.84	\$171.54	14.4000%
2044	\$25,321	2.00%	\$506.42	\$173.93	14.4000%
2045	\$26,386	2.00%	\$527.72	\$176.31	14.4000%
2046	\$27,491	2.00%	\$549.82	\$178.69	14.4000%
2047	\$28,642	2.00%	\$572.84	\$181.10	14.4000%

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2048	\$29,842	2.00%	\$596.84	\$183.55	14.4000%
2049	\$31,085	2.00%	\$621.70	\$185.99	14.4000%
2050	\$32,374	2.00%	\$647.48	\$188.42	14.4000%
2051	\$33,719	2.00%	\$674.38	\$190.91	14.4000%
2052	\$35,120	2.00%	\$702.40	\$193.42	14.4000%
2053	\$36,579	2.00%	\$731.58	\$195.97	14.4000%
2054	\$38,101	2.00%	\$762.02	\$198.57	14.4000%
2055	\$39,682	2.00%	\$793.64	\$201.17	14.4000%
2056	\$41,324	2.00%	\$826.48	\$203.79	14.4000%
2057	\$43,036	2.00%	\$860.72	\$206.45	14.4000%
2058	\$44,817	2.00%	\$896.34	\$209.14	14.4000%
2059	\$46,670	2.00%	\$933.40	\$211.85	14.4000%
2060	\$48,600	2.00%	\$972.00	\$214.61	14.4000%
2061	\$50,605	2.00%	\$1,012.10	\$217.38	14.4000%
2062	\$52,699	2.00%	\$1,053.98	\$220.20	14.4000%
2063	\$54,883	2.00%	\$1,097.66	\$223.08	14.4000%
2064	\$57,155	2.00%	\$1,143.10	\$225.99	14.4000%
2065	\$59,520	2.00%	\$1,190.40	\$228.93	14.4000%
2066	\$61,964	2.00%	\$1,239.28	\$231.84	14.4000%
2067	\$64,511	2.00%	\$1,290.22	\$234.79	14.4000%
2068	\$67,183	2.00%	\$1,343.66	\$237.86	14.4000%
2069	\$69,970	2.00%	\$1,399.40	\$240.98	14.4000%
2070	\$72,868	2.00%	\$1,457.36	\$244.13	14.4000%
2071	\$75,881	2.00%	\$1,517.62	\$247.29	14.4000%
2072	\$79,015	2.00%	\$1,580.30	\$250.50	14.4000%
2073	\$82,282	2.00%	\$1,645.64	\$253.75	14.4000%
2074	\$85,685	2.00%	\$1,713.70	\$257.05	14.4000%
2075	\$89,221	2.00%	\$1,784.42	\$260.36	14.4000%
2076	\$92,900	2.00%	\$1,858.00	\$263.71	14.4000%
2077	\$96,727	2.00%	\$1,934.54	\$267.10	14.4000%
2078	\$100,711	2.00%	\$2,014.22	\$270.52	14.4000%
2079	\$104,859	2.00%	\$2,097.18	\$273.99	14.4000%
2080	\$109,174	2.00%	\$2,183.48	\$277.50	14.4000%

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