

111TH CONGRESS  
1ST SESSION

# S. 1240

To provide for the reform of health care, the Social Security system, the tax code for individuals and business, and the budget process.

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IN THE SENATE OF THE UNITED STATES

JUNE 11, 2009

Mr. DEMINT introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To provide for the reform of health care, the Social Security system, the tax code for individuals and business, and the budget process.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the  
5 “Roadmap for America’s Future Act of 2009”.

6 (b) TABLE OF CONTENTS.—The table of contents of  
7 this Act is as follows:

Sec. 1. Short title; table of contents.

Sec. 2. Findings and purpose.

TITLE I—HEALTH CARE REFORM

Subtitle A—Tax Changes

- Sec. 101. Refundable credit for health insurance coverage.
- Sec. 102. Changes to existing tax preferences for medical coverage, etc., for individuals eligible for qualified health insurance credit.

Subtitle B—Health Plan Choice; Small Business Health Fairness

- Sec. 111. Cooperative governing of individual health insurance coverage.
- Sec. 112. Small business health fairness.

Subtitle C—Health Care Services Commission

PART 1—ESTABLISHMENT AND GENERAL DUTIES

- Sec. 121. Establishment.
- Sec. 122. General authorities and duties.
- Sec. 123. Dissemination.

PART 2—FORUM FOR QUALITY AND EFFECTIVENESS IN HEALTH CARE

- Sec. 131. Establishment of office.
- Sec. 132. Membership.
- Sec. 133. Duties.
- Sec. 134. Adoption and enforcement of guidelines and standards.
- Sec. 135. Additional requirements.

PART 3—GENERAL PROVISIONS

- Sec. 141. Certain administrative authorities.
- Sec. 142. Funding.
- Sec. 143. Definitions.

PART 4—TERMINATIONS AND TRANSITION

- Sec. 151. Termination of Agency for Healthcare Research and Quality.
- Sec. 152. Transition.

PART 5—INDEPENDENT HEALTH RECORD TRUST

- Sec. 161. Short title of Part.
- Sec. 162. Purpose.
- Sec. 163. Definitions.
- Sec. 164. Establishment, certification, and membership of independent health record trusts.
- Sec. 165. Duties of IHRT to IHRT participants.
- Sec. 166. Availability and use of information from records in IHRT consistent with privacy protections and agreements.
- Sec. 167. Voluntary nature of trust participation and information sharing.
- Sec. 168. Financing of activities.
- Sec. 169. Regulatory oversight.

TITLE II—MEDICAID AND SCHIP REFORM

- Sec. 201. Medicaid reform.
- Sec. 202. SCHIP Reform.

TITLE III—MEDICARE REFORM

Subtitle A—New Medicare Program

- Sec. 301. Benefit changes.
- Sec. 302. Unified Medicare Trust Fund.

#### Subtitle B—Changes in Current Medicare Program

- Sec. 311. Income-related reduction in Part D premium subsidy.
- Sec. 312. Reduction in hospital market basket increases.
- Sec. 313. Elimination of indexing of income thresholds for Part B income-related premiums.

#### TITLE IV—SOCIAL SECURITY REFORM

- Sec. 401. Short title and table of contents of title.
- Sec. 402. Establishment of Personal Social Security Savings Program.
- Sec. 403. Monthly insurance benefits for participating individuals.
- Sec. 404. Tax treatment of accounts.
- Sec. 405. Self-Liquidating Social Security Transition Fund.
- Sec. 406. Budgetary treatment of Social Security.
- Sec. 407. Accounting for the Old-Age, Survivors, and Disability Insurance Program and the Personal Social Security Savings Program.
- Sec. 408. Progressive indexing of benefits for old-age, wife's, and husband's insurance benefits.
- Sec. 409. Enhancements to Part A benefits.

#### TITLE V—SIMPLIFIED INCOME TAX

- Sec. 501. Short title.
- Sec. 502. Repeal of alternative minimum tax for noncorporate taxpayers.
- Sec. 503. Simplified income tax system.
- Sec. 504. Exclusion for capital gains, dividends, and interest.
- Sec. 505. Repeal of estate and gift taxes.

#### TITLE VI—BUSINESS CONSUMPTION TAX

- Sec. 601. Short title.
- Sec. 602. Repeal of corporate income tax; new tax paid by corporations and other businesses.
- Sec. 603. Repeal of Chapter 6.
- Sec. 604. Revisions to the Code.
- Sec. 605. Application of Subtitle F.
- Sec. 606. Effective dates.

#### TITLE VII—BUDGET ENFORCEMENT

- Sec. 701. Short title; table of contents; definitions.
- Sec. 702. Long-term projections.
- Sec. 703. Preview spending reduction order.
- Sec. 704. Final spending reduction order.
- Sec. 705. Eliminating excess spending amounts.
- Sec. 706. Special procedures.
- Sec. 707. Suspension in the event of war or low growth.
- Sec. 708. Alternate spending reduction legislation in the House of Representatives.
- Sec. 709. Alternate spending reduction legislation in the Senate.
- Sec. 710. General provisions.
- Sec. 711. Effective date.

1 **SEC. 2. FINDINGS AND PURPOSE.**

2 (a) FINDINGS.—The Congress finds as follows:

3 (1) The social insurance strategies of the past  
4 century, which sprang from the New Deal, expanded  
5 in the Great Society, and continue to dominate the  
6 terms of public debate, are headed toward collapse.

7 (2) Although Americans remain committed to  
8 the missions of these initiatives, the goals can no  
9 longer be met on models created nearly 80 years  
10 ago—with large, centralized institutions, especially  
11 government, serving as sole providers for an increas-  
12 ingly dependent population.

13 (3) The failure of this approach will not occur  
14 immediately, it will unfold over the next several dec-  
15 ades, becoming more intractable with each suc-  
16 ceeding year; but it is inevitable, and policies in  
17 place right now, today, are leading inexorably toward  
18 it.

19 (4) Among the inescapable signs are the fol-  
20 lowing: an unsustainable path of Government spend-  
21 ing; levels of projected debt that threaten to bank-  
22 rupt the country; trillions of dollars of unfunded li-  
23 abilities in the Government's major benefit pro-  
24 grams; and the erosion of Americans' security and  
25 confidence in health care and retirement.

1           (5) These conditions pose significant potential  
2 burdens not only for the Government, but for the  
3 United States economy as well, threatening its abil-  
4 ity to continue raising standards of living, and its  
5 leadership in an increasingly international market-  
6 place.

7           (6) A comprehensive plan is needed, and this  
8 legislation aims to energize the productive capacities  
9 of Americans to generate sustained economic  
10 growth.

11       (b) PURPOSE.—The purpose of this Act is as follows:

12           (1) HEALTH CARE REFORM.—To provide access  
13 to health care coverage to 47 million uninsured  
14 Americans by establishing a new tax credit; to re-  
15 form health insurance markets, high-risk pools, and  
16 electronic health records; and to create a new agency  
17 to promote the dissemination of industry-defined  
18 health care price and quality data.

19           (2) MEDICAID AND SCHIP REFORM.—To im-  
20 prove health care coverage for those who need it  
21 most by establishing a new option for States' Medi-  
22 caid and SCHIP programs.

23           (3) MEDICARE REFORM.—To ensure the Medi-  
24 care benefit continues to provide health care cov-  
25 erage for seniors by establishing a new methodology

1 to make the program solvent and fiscally sustain-  
2 able.

3 (4) SOCIAL SECURITY REFORM.—To reform So-  
4 cial Security to ensure retirement security for future  
5 generations and to make it solvent for the foresee-  
6 able future; to address inequities in the system and  
7 provide millions of Americans with the opportunity  
8 to build a retirement nest egg that they can pass on  
9 to their heirs.

10 (5) INDIVIDUAL INCOME TAX REFORM.—To  
11 offer taxpayers a choice in paying their Federal in-  
12 come taxes; to allow individuals to choose between  
13 the current tax code or a highly simplified tax sys-  
14 tem with virtually no deductions or credits (apart  
15 from an individual health care credit), two low tax  
16 rates and a generous standard deduction and per-  
17 sonal exemption; to fully repeal the alternative min-  
18 imum tax (AMT), eliminate the tax on interest, cap-  
19 ital gains and dividends in order to promote saving;  
20 and to repeal the estate tax.

21 (6) BUSINESS TAX REFORM.—To eliminate the  
22 United States corporate income tax and establishes  
23 a border-adjustable business consumption tax in its  
24 place; to provide a new method of business taxation  
25 that will level the playing field for United States

1 businesses to compete with foreign businesses and  
 2 will promote sustained economic growth, investment  
 3 and job creation in America.

4 (7) BUDGET PROCESS.—To keep total spending  
 5 of the Government under control, a limit on total  
 6 outlays as a percentage of the gross domestic  
 7 produce is established; and enforced by automatic  
 8 spending controls if it is exceeded.

## 9 **TITLE I—HEALTH CARE REFORM**

### 10 **Subtitle A—Tax Changes**

#### 11 **SEC. 101. REFUNDABLE CREDIT FOR HEALTH INSURANCE**

##### 12 **COVERAGE.**

13 (a) IN GENERAL.—Subpart C of part IV of sub-  
 14 chapter A of chapter 1 of the Internal Revenue Code of  
 15 1986 (relating to refundable credits) is amended by insert-  
 16 ing after section 36A the following new section:

##### 17 **“SEC. 36B. QUALIFIED HEALTH INSURANCE CREDIT.**

18 “(a) ALLOWANCE OF CREDIT.—In the case of an in-  
 19 dividual, there shall be allowed as a credit against the tax  
 20 imposed by this chapter for the taxable year the sum of  
 21 the monthly limitations determined under subsection (b)  
 22 for the taxpayer and the taxpayer’s spouse and depend-  
 23 ents.

24 “(b) MONTHLY LIMITATION.—

1           “(1) IN GENERAL.—The monthly limitation for  
2 each month during the taxable year for an eligible  
3 individual is  $\frac{1}{12}$ th of—

4           “(A) the applicable adult amount, in the  
5 case that the eligible individual is the taxpayer  
6 or the taxpayer’s spouse,

7           “(B) the applicable adult amount, in the  
8 case that the eligible individual is an adult de-  
9 pendent, and

10           “(C) the applicable child amount, in the  
11 case that the eligible individual is a child de-  
12 pendent.

13           “(2) LIMITATION ON AGGREGATE AMOUNT.—  
14 Notwithstanding paragraph (1), the aggregate  
15 monthly limitations for the taxpayer and the tax-  
16 payer’s spouse and dependents for any month shall  
17 not exceed  $\frac{1}{12}$ th of the applicable aggregate amount.

18           “(3) NO CREDIT FOR INELIGIBLE MONTHS.—  
19 With respect to any individual, the monthly limita-  
20 tion shall be zero for any month for which such indi-  
21 vidual is not an eligible individual.

22           “(c) APPLICABLE AMOUNTS.—For purposes of this  
23 section—

24           “(1) APPLICABLE ADULT AMOUNT.—The term  
25 ‘applicable adult amount’ means \$2,500.



1           “(2) APPLICABLE CHILD AMOUNT.—The term  
2           ‘applicable child amount’ means \$1,000.

3           “(3) APPLICABLE AGGREGATE AMOUNT.—The  
4           term ‘applicable aggregate amount’ means \$5,000.

5           “(d) ELIGIBLE INDIVIDUAL.—For purposes of this  
6           section—

7           “(1) IN GENERAL.—The term ‘eligible indi-  
8           vidual’ means, with respect to any month, an indi-  
9           vidual who—

10                   “(A) is the taxpayer, the taxpayer’s  
11                   spouse, or the taxpayer’s dependent, and

12                   “(B) is covered under qualified health in-  
13                   surance as of the 1st day of such month.

14           “(2) COVERAGE UNDER MEDICARE, MEDICAID,  
15           SCHIP, MILITARY COVERAGE.—The term ‘eligible in-  
16           dividual’ shall not include any individual for a month  
17           if, as of the first day of such month, such individual  
18           is—

19                   “(A) entitled to benefits under part A of  
20                   title XVIII of the Social Security Act or en-  
21                   rolled under part B of such title, and the indi-  
22                   vidual is not a participant or beneficiary in a  
23                   group health plan or large group health plan  
24                   that is a primary plan (as defined in section  
25                   1862(b)(2)(A) of such Act),

1           “(B) in the case of a State that has not  
2           made the election described in section  
3           1939(a)(1)(B) of the Social Security Act, en-  
4           rolled in the program under title XIX of such  
5           Act (other than under section 1928 of such  
6           Act), or

7           “(C) entitled to benefits under chapter 55  
8           of title 10, United States Code.

9           “(3) IDENTIFICATION REQUIREMENTS.—The  
10          term ‘eligible individual’ shall not include any indi-  
11          vidual for any month unless the policy number asso-  
12          ciated with the qualified refund eligible health insur-  
13          ance and the TIN of each eligible individual covered  
14          under such health insurance for such month are in-  
15          cluded on the return of tax for the taxable year in  
16          which such month occurs.

17          “(4) PRISONERS.—The term ‘eligible individual’  
18          shall not include any individual for a month if, as  
19          of the first day of such month, such individual is im-  
20          prisoned under Federal, State, or local authority.

21          “(5) ALIENS.—The term ‘eligible individual’  
22          shall not include any alien individual for a month if,  
23          as of the first day of such month, such individual is  
24          not a lawful permanent resident of the United  
25          States.

1       “(e) QUALIFIED HEALTH INSURANCE.—For pur-  
2 poses of this section, the term ‘qualified health insurance’  
3 means any insurance constituting medical care which (as  
4 determined under regulations prescribed by the Secretary)  
5 provides coverage for inpatient and outpatient care, emer-  
6 gency benefits, and physician care. Such term does not  
7 include any insurance substantially all of the coverage of  
8 which is coverage described in section 223(c)(1)(B).

9       “(f) OTHER DEFINITIONS.—For purposes of this sec-  
10 tion—

11           “(1) DEPENDENT.—The term ‘dependent’ has  
12 the meaning given such term by section 152 (deter-  
13 mined without regard to subsections (b)(1), (b)(2),  
14 and (d)(1)(B) thereof). An individual who is a child  
15 to whom section 152(e) applies shall be treated as  
16 a dependent of the custodial parent for a coverage  
17 month unless the custodial and noncustodial parent  
18 agree otherwise.

19           “(2) ADULT.—The term ‘adult’ means an indi-  
20 vidual who is not a child.

21           “(3) CHILD.—The term ‘child’ means a quali-  
22 fying child (as defined in section 152(e)).

23       “(g) SPECIAL RULES.—

24           “(1) COORDINATION WITH MEDICAL DEDUC-  
25 TION, ETC.—Any amount paid by a taxpayer for in-

1 surance to which subsection (a) applies shall not be  
2 taken into account in computing the amount allow-  
3 able to the taxpayer as a credit under section 35 or  
4 as a deduction under section 213(a).

5 “(2) MEDICAL AND HEALTH SAVINGS AC-  
6 COUNTS.—The credit allowed under subsection (a)  
7 for any taxable year shall be reduced by the aggre-  
8 gate amount distributed from Archer MSAs (as de-  
9 fined in section 220(d)) and health savings accounts  
10 (as defined in section 223(d)) which are excludable  
11 from gross income for such taxable years by reason  
12 of being used to pay premiums for coverage of an  
13 eligible individual (as defined in section 25E(e))  
14 under qualified health insurance (as defined in sec-  
15 tion 25E(f)) for any month.

16 “(3) DENIAL OF CREDIT TO DEPENDENTS.—No  
17 credit shall be allowed under this section to any indi-  
18 vidual with respect to whom a deduction under sec-  
19 tion 151 is allowable to another taxpayer for a tax-  
20 able year beginning in the calendar year in which  
21 such individual’s taxable year begins.

22 “(4) MARRIED COUPLES MUST FILE JOINT RE-  
23 TURN.—

24 “(A) IN GENERAL.—If the taxpayer is  
25 married at the close of the taxable year, the

1 credit shall be allowed under subsection (a) only  
2 if the taxpayer and his spouse file a joint return  
3 for the taxable year.

4 “(B) MARITAL STATUS; CERTAIN MARRIED  
5 INDIVIDUALS LIVING APART.—Rules similar to  
6 the rules of paragraphs (3) and (4) of section  
7 21(e) shall apply for purposes of this para-  
8 graph.

9 “(5) VERIFICATION OF COVERAGE, ETC.—No  
10 credit shall be allowed under this section with re-  
11 spect to any individual unless such individual’s cov-  
12 erage (and such related information as the Secretary  
13 may require) is verified in such manner as the Sec-  
14 retary may prescribe.

15 “(6) INSURANCE WHICH COVERS OTHER INDI-  
16 VIDUALS; TREATMENT OF PAYMENTS.—Rules similar  
17 to the rules of paragraphs (7) and (8) of section  
18 35(g) shall apply for purposes of this section.

19 “(h) COORDINATION WITH ADVANCE PAYMENTS.—

20 “(1) REDUCTION IN CREDIT FOR ADVANCE PAY-  
21 MENTS.—With respect to any taxable year, the  
22 amount which would (but for this subsection) be al-  
23 lowed as a credit to the taxpayer under subsection  
24 (a) shall be reduced (but not below zero) by the ag-  
25 gregate amount paid on behalf of such taxpayer

1 under section 7527A for months beginning in such  
2 taxable year.

3 “(2) RECAPTURE OF EXCESS ADVANCE PAY-  
4 MENTS.—If the aggregate amount paid on behalf of  
5 the taxpayer under section 7527A for months begin-  
6 ning in the taxable year exceeds the sum of the  
7 monthly limitations determined under subsection (b)  
8 for the taxpayer and the taxpayer’s spouse and de-  
9 pendents for such months, then the tax imposed by  
10 this chapter for such taxable year shall be increased  
11 by the sum of—

12 “(A) such excess, plus

13 “(B) interest on such excess determined at  
14 the underpayment rate established under sec-  
15 tion 6621 for the period from the date of the  
16 payment under section 7527A to the date such  
17 excess is paid.

18 For purposes of subparagraph (B), an equal part of  
19 the aggregate amount of the excess shall be deemed  
20 to be attributable to payments made under section  
21 7527A on the first day of each month beginning in  
22 such taxable year, unless the taxpayer establishes  
23 the date on which each such payment giving rise to  
24 such excess occurred, in which case subparagraph

1 (B) shall be applied with respect to each date so es-  
2 tablished.

3 “(i) ANNUAL INFLATION ADJUSTMENT.—In the case  
4 of any taxable year beginning in a calendar year after  
5 2010 each of the dollar amounts contained in subsection  
6 (c) shall be annually increased by the annual inflation ad-  
7 justment determined under subparagraph (B) section  
8 1809(c)(2) of the Social Security Act for such calendar  
9 year. Any adjustment under the preceding sentence shall  
10 be rounded in the manner described in subparagraph (A)  
11 of such section.”.

12 (b) ADVANCE PAYMENT OF CREDIT.—Chapter 77  
13 (relating to miscellaneous provisions) of such Code is  
14 amended by inserting after section 7527 the following new  
15 section:

16 **“SEC. 7527A. ADVANCE PAYMENT OF QUALIFIED HEALTH**  
17 **INSURANCE CREDIT.**

18 “(a) IN GENERAL.—The Secretary shall establish a  
19 program for making payments on behalf of individuals to  
20 providers of qualified health insurance (as defined in sec-  
21 tion 36(f)) for such individuals.

22 “(b) LIMITATION.—The Secretary may make pay-  
23 ments under subsection (a) only to the extent that the Sec-  
24 retary determines that the amount of such payments made  
25 on behalf of any taxpayer for any month does not exceed

1 the sum of the monthly limitations determined under sec-  
2 tion 36 for the taxpayer and taxpayer’s spouse and de-  
3 pendants for such month.”.

4 (c) INFORMATION REPORTING.—

5 (1) IN GENERAL.—Subpart B of part III of  
6 subchapter A of chapter 61 of such Code (relating  
7 to information concerning transactions with other  
8 persons) is amended by inserting after section  
9 6050V the following new section:

10 **“SEC. 6050W. RETURNS RELATING TO QUALIFIED HEALTH**  
11 **INSURANCE CREDIT.**

12 “(a) REQUIREMENT OF REPORTING.—Every person  
13 who is entitled to receive payments for any month of any  
14 calendar year under section 7527A (relating to advance  
15 payment of qualified health insurance credit) with respect  
16 to any individual shall, at such time as the Secretary may  
17 prescribe, make the return described in subsection (b) with  
18 respect to each such individual.

19 “(b) FORM AND MANNER OF RETURNS.—A return  
20 is described in this subsection if such return—

21 “(1) is in such form as the Secretary may pre-  
22 scribe, and

23 “(2) contains, with respect to each individual  
24 referred to in subsection (a)—



1           “(A) the name, address, and TIN of each  
2 such individual,

3           “(B) the months for which amounts pay-  
4 ments under section 7527A were received,

5           “(C) the amount of each such payment,

6           “(D) the type of insurance coverage pro-  
7 vide by such person with respect to such indi-  
8 vidual and the policy number associated with  
9 such coverage,

10           “(E) the name, address, and TIN of the  
11 spouse and each dependent covered under such  
12 coverage, and

13           “(F) such other information as the Sec-  
14 retary may prescribe.

15           “(c) STATEMENTS TO BE FURNISHED TO INDIVID-  
16 UALS WITH RESPECT TO WHOM INFORMATION IS RE-  
17 QUIRED.—Every person required to make a return under  
18 subsection (a) shall furnish to each individual whose name  
19 is required to be set forth in such return a written state-  
20 ment showing—

21           “(1) the name and address of the person re-  
22 quired to make such return and the phone number  
23 of the information contact for such person, and

24           “(2) the information required to be shown on  
25 the return with respect to such individual.

1 The written statement required under the preceding sen-  
2 tence shall be furnished on or before January 31 of the  
3 year following the calendar year for which the return  
4 under subsection (a) is required to be made.

5 “(d) RETURNS WHICH WOULD BE REQUIRED TO BE  
6 MADE BY 2 OR MORE PERSONS.—Except to the extent  
7 provided in regulations prescribed by the Secretary, in the  
8 case of any amount received by any person on behalf of  
9 another person, only the person first receiving such  
10 amount shall be required to make the return under sub-  
11 section (a).”.

12 (2) ASSESSABLE PENALTIES.—

13 (A) Subparagraph (B) of section  
14 6724(d)(1) (relating to definitions) of such  
15 Code is amended by redesignating clauses (xv)  
16 through (xxi) as clauses (xvi) through (xxii), re-  
17 spectively, and by inserting after clause (xiv)  
18 the following new clause:

19 “(xv) section 6050W (relating to re-  
20 turns relating to qualified health insurance  
21 credit),”.

22 (B) Paragraph (2) of section 6724(d) of  
23 such Code is amended by striking the period at  
24 the end of subparagraph (CC) and inserting “,

1 or” and by inserting after subparagraph (CC)  
2 the following new subparagraph:

3 “(DD) section 6050W (relating to returns  
4 relating to qualified health insurance credit).”.

5 (d) CONFORMING AMENDMENTS.—

6 (1) Paragraph (2) of section 1324(b) of title  
7 31, United States Code, is amended by inserting  
8 “36B,” after “36A,”.

9 (2) The table of sections for subpart C of part  
10 IV of subchapter A of chapter 1 of the Internal Rev-  
11 enue Code of 1986 is amended by inserting after the  
12 item relating to section 36A the following new item:

“Sec. 36B. Qualified health insurance credit.”.

13 (3) The table of sections for chapter 77 of such  
14 Code is amended by inserting after the item relating  
15 to section 7527 the following new item:

“Sec. 7527A. Advance payment of qualified health insurance credit.”.

16 (4) The table of sections for subpart B of part  
17 III of subchapter A of chapter 61 of such Code is  
18 amended by adding at the end the following new  
19 item:

“Sec. 6050W. Returns relating to qualified health insurance credit.”.

20 (e) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to taxable years beginning after  
22 December 31, 2009.

1 **SEC. 102. CHANGES TO EXISTING TAX PREFERENCES FOR**  
2 **MEDICAL COVERAGE, ETC., FOR INDIVIDUALS**  
3 **ELIGIBLE FOR QUALIFIED HEALTH INSUR-**  
4 **ANCE CREDIT.**

5 (a) EXCLUSION FOR CONTRIBUTIONS BY EMPLOYER  
6 TO ACCIDENT AND HEALTH PLANS.—

7 (1) IN GENERAL.—Section 106 of the Internal  
8 Revenue Code of 1986 (relating to contributions by  
9 employer to accident and health plans) is amended  
10 by adding at the end the following new subsection:

11 “(f) NO EXCLUSION FOR INDIVIDUALS ELIGIBLE  
12 FOR QUALIFIED HEALTH INSURANCE CREDIT.—Sub-  
13 section (a) shall not apply with respect to any employer-  
14 provided coverage under an accident or health plan for any  
15 individual for any month unless such individual is de-  
16 scribed in paragraph (2) or (5) of section 36(e) for such  
17 month. The amount includible in gross income by reason  
18 of this subsection shall be determined under rules similar  
19 to the rules of section 4980B(f)(4).”.

20 (2) CONFORMING AMENDMENTS.—

21 (A) Section 106(b)(1) of such Code is  
22 amended—

23 (i) by inserting “gross income does  
24 not include” before “amounts contrib-  
25 uted”, and

1 (ii) by striking “shall be treated as  
2 employer-provided coverage for medical ex-  
3 penses under an accident or health plan”.

4 (B) Section 106(d)(1) of such Code is  
5 amended—

6 (i) by inserting “gross income does  
7 not include” before “amounts contrib-  
8 uted”, and

9 (ii) by striking “shall be treated as  
10 employer-provided coverage for medical ex-  
11 penses under an accident or health plan”.

12 (b) AMOUNTS RECEIVED UNDER ACCIDENT AND  
13 HEALTH PLANS.—

14 (1) IN GENERAL.—Section 105 of such Code  
15 (relating to amounts received under accident and  
16 health plans) is amended by adding at the end the  
17 following new subsection:

18 “(k) NO EXCLUSION FOR INDIVIDUALS ELIGIBLE  
19 FOR QUALIFIED HEALTH INSURANCE CREDIT.—Sub-  
20 section (b) shall not apply with respect to any employer-  
21 provided coverage under an accident or health plan for any  
22 individual for any month unless such individual is de-  
23 scribed in paragraph (2) or (5) of section 36(e) for such  
24 month.”.

1           (c) SPECIAL RULES FOR HEALTH INSURANCE COSTS  
2 OF SELF-EMPLOYED INDIVIDUALS.—Subsection (l) of  
3 section 162 of such Code (relating to special rules for  
4 health insurance costs of self-employed individuals) is  
5 amended by adding at the end the following new para-  
6 graph:

7                   “(6) NO DEDUCTION TO INDIVIDUALS ELIGIBLE  
8 FOR QUALIFIED HEALTH INSURANCE.—Paragraph  
9 (1) shall not apply for any individual for any month  
10 unless such individual is described in paragraph (2)  
11 or (5) of section 36(e) for such month.”.

12           (d) EARNED INCOME CREDIT UNAFFECTED BY RE-  
13 PEATED EXCLUSIONS.—Subparagraph (B) of section  
14 32(e)(2) of such Code is amended by redesignating clauses  
15 (v) and (vi) as clauses (vi) and (vii), respectively, and by  
16 inserting after clause (iv) the following new clause:

17                           “(v) the earned income of an indi-  
18                           vidual shall be computed without regard to  
19                           sections 105(k) and 106(f),”.

20           (e) MODIFICATION OF DEDUCTION FOR MEDICAL  
21 EXPENSES.—Subsection (d) of section 213 of such Code  
22 is amended by adding at the end the following new para-  
23 graph:

24                   “(12) PREMIUMS FOR QUALIFIED HEALTH IN-  
25                   SURANCE.—The term ‘medical care’ does not include

1 any amount paid as a premium for coverage of an  
2 eligible individual (as defined in section 36(e)) under  
3 qualified health insurance (as defined in section  
4 36(f)) for any month.”.

5 (f) REPORTING REQUIREMENT.—Subsection (a) of  
6 section 6051 of such Code is amended by striking “and”  
7 at the end of paragraph (12), by striking the period at  
8 the end of paragraph (13) and inserting “and”, and by  
9 inserting after paragraph (13) the following new para-  
10 graph:

11 “(14) the total amount of employer-provided  
12 coverage under an accident or health plan which is  
13 includible in gross income by reason of sections  
14 105(k) and 106(f).”.

15 (g) RETIRED PUBLIC SAFETY OFFICERS.—Section  
16 402(l)(4)(D) of such Code is amended by adding at the  
17 end the following: “Such term shall not include any pre-  
18 mium for coverage by an accident or health insurance plan  
19 for any month unless such individual is described in para-  
20 graph (2) or (5) of section 36(e) for such month.”.

21 (h) EMPLOYER DEDUCTION AS TRADE OR BUSINESS  
22 EXPENSE UNAFFECTED.—For the allowance of a deduc-  
23 tion for amounts paid or incurred by an employer for em-  
24 ployee health benefits, see section 162 of the Internal Rev-

1 enue Code of 1986 (relating to trade or business ex-  
2 penses).

3 (i) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to taxable years beginning after  
5 December 31, 2009.

6 **Subtitle B—Health Plan Choice;**  
7 **Small Business Health Fairness**

8 **SEC. 111. COOPERATIVE GOVERNING OF INDIVIDUAL**  
9 **HEALTH INSURANCE COVERAGE.**

10 (a) IN GENERAL.—Title XXVII of the Public Health  
11 Service Act (42 U.S.C. 300gg et seq.) is amended by add-  
12 ing at the end the following new part:

13 **“PART D—COOPERATIVE GOVERNING OF**  
14 **INDIVIDUAL HEALTH INSURANCE COVERAGE**

15 **“SEC. 2795. DEFINITIONS.**

16 “In this part:

17 “(1) PRIMARY STATE.—The term ‘primary  
18 State’ means, with respect to individual health insur-  
19 ance coverage offered by a health insurance issuer,  
20 the State designated by the issuer as the State  
21 whose covered laws shall govern the health insurance  
22 issuer in the sale of such coverage under this part.  
23 An issuer, with respect to a particular policy, may  
24 only designate one such State as its primary State  
25 with respect to all such coverage it offers. Such an



1 issuer may not change the designated primary State  
2 with respect to individual health insurance coverage  
3 once the policy is issued, except that such a change  
4 may be made upon renewal of the policy. With re-  
5 spect to such designated State, the issuer is deemed  
6 to be doing business in that State.

7 “(2) SECONDARY STATE.—The term ‘secondary  
8 State’ means, with respect to individual health insur-  
9 ance coverage offered by a health insurance issuer,  
10 any State that is not the primary State. In the case  
11 of a health insurance issuer that is selling a policy  
12 in, or to a resident of, a secondary State, the issuer  
13 is deemed to be doing business in that secondary  
14 State.

15 “(3) HEALTH INSURANCE ISSUER.—The term  
16 ‘health insurance issuer’ has the meaning given such  
17 term in section 2791(b)(2), except that such an  
18 issuer must be licensed in the primary State and be  
19 qualified to sell individual health insurance coverage  
20 in that State.

21 “(4) INDIVIDUAL HEALTH INSURANCE COV-  
22 ERAGE.—The term ‘individual health insurance cov-  
23 erage’ means health insurance coverage offered in  
24 the individual market, as defined in section  
25 2791(e)(1).

1           “(5) APPLICABLE STATE AUTHORITY.—The  
2 term ‘applicable State authority’ means, with respect  
3 to a health insurance issuer in a State, the State in-  
4 surance commissioner or official or officials des-  
5 ignated by the State to enforce the requirements of  
6 this title for the State with respect to the issuer.

7           “(6) HAZARDOUS FINANCIAL CONDITION.—The  
8 term ‘hazardous financial condition’ means that,  
9 based on its present or reasonably anticipated finan-  
10 cial condition, a health insurance issuer is unlikely  
11 to be able—

12                   “(A) to meet obligations to policyholders  
13 with respect to known claims and reasonably  
14 anticipated claims; or

15                   “(B) to pay other obligations in the normal  
16 course of business.

17           “(7) COVERED LAWS.—

18                   “(A) IN GENERAL.—The term ‘covered  
19 laws’ means the laws, rules, regulations, agree-  
20 ments, and orders governing the insurance busi-  
21 ness pertaining to—

22                           “(i) individual health insurance cov-  
23 erage issued by a health insurance issuer;

24                           “(ii) the offer, sale, rating (including  
25 medical underwriting), renewal, and issu-

1           ance of individual health insurance cov-  
2           erage to an individual;

3           “(iii) the provision to an individual in  
4           relation to individual health insurance cov-  
5           erage of health care and insurance related  
6           services;

7           “(iv) the provision to an individual in  
8           relation to individual health insurance cov-  
9           erage of management, operations, and in-  
10          vestment activities of a health insurance  
11          issuer; and

12          “(v) the provision to an individual in  
13          relation to individual health insurance cov-  
14          erage of loss control and claims adminis-  
15          tration for a health insurance issuer with  
16          respect to liability for which the issuer pro-  
17          vides insurance.

18          “(B) EXCEPTION.—Such term does not in-  
19          clude any law, rule, regulation, agreement, or  
20          order governing the use of care or cost manage-  
21          ment techniques, including any requirement re-  
22          lated to provider contracting, network access or  
23          adequacy, health care data collection, or quality  
24          assurance.

1           “(8) STATE.—The term ‘State’ means the 50  
2 States and includes the District of Columbia, Puerto  
3 Rico, the Virgin Islands, Guam, American Samoa,  
4 and the Northern Mariana Islands.

5           “(9) UNFAIR CLAIMS SETTLEMENT PRAC-  
6 TICES.—The term ‘unfair claims settlement prac-  
7 tices’ means only the following practices:

8           “(A) Knowingly misrepresenting to claim-  
9 ants and insured individuals relevant facts or  
10 policy provisions relating to coverage at issue.

11           “(B) Failing to acknowledge with reason-  
12 able promptness pertinent communications with  
13 respect to claims arising under policies.

14           “(C) Failing to adopt and implement rea-  
15 sonable standards for the prompt investigation  
16 and settlement of claims arising under policies.

17           “(D) Failing to effectuate prompt, fair,  
18 and equitable settlement of claims submitted in  
19 which liability has become reasonably clear.

20           “(E) Refusing to pay claims without con-  
21 ducting a reasonable investigation.

22           “(F) Failing to affirm or deny coverage of  
23 claims within a reasonable period of time after  
24 having completed an investigation related to  
25 those claims.

1           “(G) A pattern or practice of compelling  
2 insured individuals or their beneficiaries to in-  
3 stitute suits to recover amounts due under its  
4 policies by offering substantially less than the  
5 amounts ultimately recovered in suits brought  
6 by them.

7           “(H) A pattern or practice of attempting  
8 to settle or settling claims for less than the  
9 amount that a reasonable person would believe  
10 the insured individual or his or her beneficiary  
11 was entitled by reference to written or printed  
12 advertising material accompanying or made  
13 part of an application.

14           “(I) Attempting to settle or settling claims  
15 on the basis of an application that was materi-  
16 ally altered without notice to, or knowledge or  
17 consent of, the insured.

18           “(J) Failing to provide forms necessary to  
19 present claims within 15 calendar days of a re-  
20 quests with reasonable explanations regarding  
21 their use.

22           “(K) Attempting to cancel a policy in less  
23 time than that prescribed in the policy or by the  
24 law of the primary State.

1           “(10) FRAUD AND ABUSE.—The term ‘fraud  
2           and abuse’ means an act or omission committed by  
3           a person who, knowingly and with intent to defraud,  
4           commits, or conceals any material information con-  
5           cerning, one or more of the following:

6                   “(A) Presenting, causing to be presented  
7                   or preparing with knowledge or belief that it  
8                   will be presented to or by an insurer, a rein-  
9                   surer, broker or its agent, false information as  
10                  part of, in support of or concerning a fact ma-  
11                  terial to one or more of the following:

12                           “(i) An application for the issuance or  
13                           renewal of an insurance policy or reinsur-  
14                           ance contract.

15                           “(ii) The rating of an insurance policy  
16                           or reinsurance contract.

17                           “(iii) A claim for payment or benefit  
18                           pursuant to an insurance policy or reinsur-  
19                           ance contract.

20                           “(iv) Premiums paid on an insurance  
21                           policy or reinsurance contract.

22                           “(v) Payments made in accordance  
23                           with the terms of an insurance policy or  
24                           reinsurance contract.

1                   “(vi) A document filed with the com-  
2                   missioner or the chief insurance regulatory  
3                   official of another jurisdiction.

4                   “(vii) The financial condition of an in-  
5                   surer or reinsurer.

6                   “(viii) The formation, acquisition,  
7                   merger, reconsolidation, dissolution or  
8                   withdrawal from one or more lines of in-  
9                   surance or reinsurance in all or part of a  
10                  State by an insurer or reinsurer.

11                  “(ix) The issuance of written evidence  
12                  of insurance.

13                  “(x) The reinstatement of an insur-  
14                  ance policy.

15                  “(B) Solicitation or acceptance of new or  
16                  renewal insurance risks on behalf of an insurer  
17                  reinsurer or other person engaged in the busi-  
18                  ness of insurance by a person who knows or  
19                  should know that the insurer or other person  
20                  responsible for the risk is insolvent at the time  
21                  of the transaction.

22                  “(C) Transaction of the business of insur-  
23                  ance in violation of laws requiring a license, cer-  
24                  tificate of authority or other legal authority for  
25                  the transaction of the business of insurance.

1           “(D) Attempt to commit, aiding or abet-  
2           ting in the commission of, or conspiracy to com-  
3           mit the acts or omissions specified in this para-  
4           graph.

5   **“SEC. 2796. APPLICATION OF LAW.**

6           “(a) IN GENERAL.—The covered laws of the primary  
7   State shall apply to individual health insurance coverage  
8   offered by a health insurance issuer in the primary State  
9   and in any secondary State, but only if the coverage and  
10   issuer comply with the conditions of this section with re-  
11   spect to the offering of coverage in any secondary State.

12          “(b) EXEMPTIONS FROM COVERED LAWS IN A SEC-  
13   ONDARY STATE.—Except as provided in this section, a  
14   health insurance issuer with respect to its offer, sale, rat-  
15   ing (including medical underwriting), renewal, and  
16   issuance of individual health insurance coverage in any  
17   secondary State is exempt from any covered laws of the  
18   secondary State (and any rules, regulations, agreements,  
19   or orders sought or issued by such State under or related  
20   to such covered laws) to the extent that such laws would—

21           “(1) make unlawful, or regulate, directly or in-  
22           directly, the operation of the health insurance issuer  
23           operating in the secondary State, except that any  
24           secondary State may require such an issuer—



1           “(A) to pay, on a nondiscriminatory basis,  
2           applicable premium and other taxes (including  
3           high risk pool assessments) which are levied on  
4           insurers and surplus lines insurers, brokers, or  
5           policyholders under the laws of the State;

6           “(B) to register with and designate the  
7           State insurance commissioner as its agent solely  
8           for the purpose of receiving service of legal doc-  
9           uments or process;

10           “(C) to submit to an examination of its fi-  
11           nancial condition by the State insurance com-  
12           missioner in any State in which the issuer is  
13           doing business to determine the issuer’s finan-  
14           cial condition, if—

15                   “(i) the State insurance commissioner  
16                   of the primary State has not done an ex-  
17                   amination within the period recommended  
18                   by the National Association of Insurance  
19                   Commissioners; and

20                   “(ii) any such examination is con-  
21                   ducted in accordance with the examiners’  
22                   handbook of the National Association of  
23                   Insurance Commissioners and is coordi-  
24                   nated to avoid unjustified duplication and  
25                   unjustified repetition;

1           “(D) to comply with a lawful order  
2 issued—

3           “(i) in a delinquency proceeding com-  
4 menced by the State insurance commis-  
5 sioner if there has been a finding of finan-  
6 cial impairment under subparagraph (C);  
7 or

8           “(ii) in a voluntary dissolution pro-  
9 ceeding;

10          “(E) to comply with an injunction issued  
11 by a court of competent jurisdiction, upon a pe-  
12 tition by the State insurance commissioner al-  
13 leging that the issuer is in hazardous financial  
14 condition;

15          “(F) to participate, on a nondiscriminatory  
16 basis, in any insurance insolvency guaranty as-  
17 sociation or similar association to which a  
18 health insurance issuer in the State is required  
19 to belong;

20          “(G) to comply with any State law regard-  
21 ing fraud and abuse (as defined in section  
22 2795(10)), except that if the State seeks an in-  
23 junction regarding the conduct described in this  
24 subparagraph, such injunction must be obtained  
25 from a court of competent jurisdiction;

1           “(H) to comply with any State law regard-  
2           ing unfair claims settlement practices (as de-  
3           fined in section 2795(9)); or

4           “(I) to comply with the applicable require-  
5           ments for independent review under section  
6           2798 with respect to coverage offered in the  
7           State;

8           “(2) require any individual health insurance  
9           coverage issued by the issuer to be countersigned by  
10          an insurance agent or broker residing in that Sec-  
11          ondary State; or

12          “(3) otherwise discriminate against the issuer  
13          issuing insurance in both the primary State and in  
14          any secondary State.

15          “(c) CLEAR AND CONSPICUOUS DISCLOSURE.—A  
16          health insurance issuer shall provide the following notice,  
17          in 12-point bold type, in any insurance coverage offered  
18          in a secondary State under this part by such a health in-  
19          surance issuer and at renewal of the policy, with the 5  
20          blank spaces therein being appropriately filled with the  
21          name of the health insurance issuer, the name of primary  
22          State, the name of the secondary State, the name of the  
23          secondary State, and the name of the secondary State, re-  
24          spectively, for the coverage concerned:

25          “**Notice**

1       **“This policy is issued by \_\_\_\_\_ and is**  
2 **governed by the laws and regulations of the**  
3 **State of \_\_\_\_\_, and it has met all the laws**  
4 **of that State as determined by that State’s De-**  
5 **partment of Insurance. This policy may be**  
6 **less expensive than others because it is not**  
7 **subject to all of the insurance laws and regu-**  
8 **lations of the State of \_\_\_\_\_, including**  
9 **coverage of some services or benefits man-**  
10 **dated by the law of the State of \_\_\_\_\_. Ad-**  
11 **ditionally, this policy is not subject to all of**  
12 **the consumer protection laws or restrictions**  
13 **on rate changes of the State of \_\_\_\_\_. As**  
14 **with all insurance products, before pur-**  
15 **chasing this policy, you should carefully re-**  
16 **view the policy and determine what health**  
17 **care services the policy covers and what bene-**  
18 **fits it provides, including any exclusions, limi-**  
19 **tations, or conditions for such services or ben-**  
20 **efits.’.**

21       “(d) PROHIBITION ON CERTAIN RECLASSIFICATIONS  
22 AND PREMIUM INCREASES.—

23               “(1) IN GENERAL.—For purposes of this sec-  
24 tion, a health insurance issuer that provides indi-  
25 vidual health insurance coverage to an individual

1 under this part in a primary or secondary State may  
2 not upon renewal—

3 “(A) move or reclassify the individual in-  
4 sured under the health insurance coverage from  
5 the class such individual is in at the time of  
6 issue of the contract based on the health-status  
7 related factors of the individual; or

8 “(B) increase the premiums assessed the  
9 individual for such coverage based on a health  
10 status-related factor or change of a health sta-  
11 tus-related factor or the past or prospective  
12 claim experience of the insured individual.

13 “(2) CONSTRUCTION.—Nothing in paragraph  
14 (1) shall be construed to prohibit a health insurance  
15 issuer—

16 “(A) from terminating or discontinuing  
17 coverage or a class of coverage in accordance  
18 with subsections (b) and (c) of section 2742;

19 “(B) from raising premium rates for all  
20 policy holders within a class based on claims ex-  
21 perience;

22 “(C) from changing premiums or offering  
23 discounted premiums to individuals who engage  
24 in wellness activities at intervals prescribed by

1 the issuer, if such premium changes or incen-  
 2 tives—

3 “(i) are disclosed to the consumer in  
 4 the insurance contract;

5 “(ii) are based on specific wellness ac-  
 6 tivities that are not applicable to all indi-  
 7 viduals; and

8 “(iii) are not obtainable by all individ-  
 9 uals to whom coverage is offered;

10 “(D) from reinstating lapsed coverage; or

11 “(E) from retroactively adjusting the rates  
 12 charged an insured individual if the initial rates  
 13 were set based on material misrepresentation by  
 14 the individual at the time of issue.

15 “(e) PRIOR OFFERING OF POLICY IN PRIMARY  
 16 STATE.—A health insurance issuer may not offer for sale  
 17 individual health insurance coverage in a secondary State  
 18 unless that coverage is currently offered for sale in the  
 19 primary State.

20 “(f) LICENSING OF AGENTS OR BROKERS FOR  
 21 HEALTH INSURANCE ISSUERS.—Any State may require  
 22 that a person acting, or offering to act, as an agent or  
 23 broker for a health insurance issuer with respect to the  
 24 offering of individual health insurance coverage obtain a  
 25 license from that State, with commissions or other com-

1 pension subject to the provisions of the laws of that  
 2 State, except that a State may not impose any qualifica-  
 3 tion or requirement which discriminates against a non-  
 4 resident agent or broker.

5 “(g) DOCUMENTS FOR SUBMISSION TO STATE IN-  
 6 SURANCE COMMISSIONER.—Each health insurance issuer  
 7 issuing individual health insurance coverage in both pri-  
 8 mary and secondary States shall submit—

9 “(1) to the insurance commissioner of each  
 10 State in which it intends to offer such coverage, be-  
 11 fore it may offer individual health insurance cov-  
 12 erage in such State—

13 “(A) a copy of the plan of operation or fea-  
 14 sibility study or any similar statement of the  
 15 policy being offered and its coverage (which  
 16 shall include the name of its primary State and  
 17 its principal place of business);

18 “(B) written notice of any change in its  
 19 designation of its primary State; and

20 “(C) written notice from the issuer of the  
 21 issuer’s compliance with all the laws of the pri-  
 22 mary State; and

23 “(2) to the insurance commissioner of each sec-  
 24 ondary State in which it offers individual health in-  
 25 surance coverage, a copy of the issuer’s quarterly fi-

1       nancial statement submitted to the primary State,  
2       which statement shall be certified by an independent  
3       public accountant and contain a statement of opin-  
4       ion on loss and loss adjustment expense reserves  
5       made by—

6               “(A) a member of the American Academy  
7               of Actuaries; or

8               “(B) a qualified loss reserve specialist.

9       “(h) POWER OF COURTS TO ENJOIN CONDUCT.—

10       Nothing in this section shall be construed to affect the  
11       authority of any Federal or State court to enjoin—

12               “(1) the solicitation or sale of individual health  
13       insurance coverage by a health insurance issuer to  
14       any person or group who is not eligible for such in-  
15       surance; or

16               “(2) the solicitation or sale of individual health  
17       insurance coverage that violates the requirements of  
18       the law of a secondary State which are described in  
19       subparagraphs (A) through (H) of section  
20       2796(b)(1).

21       “(i) POWER OF SECONDARY STATES TO TAKE AD-  
22       MINISTRATIVE ACTION.—Nothing in this section shall be  
23       construed to affect the authority of any State to enjoin  
24       conduct in violation of that State’s laws described in sec-  
25       tion 2796(b)(1).



1 “(j) STATE POWERS TO ENFORCE STATE LAWS.—

2 “(1) IN GENERAL.—Subject to the provisions of  
3 subsection (b)(1)(G) (relating to injunctions) and  
4 paragraph (2), nothing in this section shall be con-  
5 strued to affect the authority of any State to make  
6 use of any of its powers to enforce the laws of such  
7 State with respect to which a health insurance issuer  
8 is not exempt under subsection (b).

9 “(2) COURTS OF COMPETENT JURISDICTION.—

10 If a State seeks an injunction regarding the conduct  
11 described in paragraphs (1) and (2) of subsection  
12 (h), such injunction must be obtained from a Fed-  
13 eral or State court of competent jurisdiction.

14 “(k) STATES’ AUTHORITY TO SUE.—Nothing in this  
15 section shall affect the authority of any State to bring ac-  
16 tion in any Federal or State court.

17 “(l) GENERALLY APPLICABLE LAWS.—Nothing in  
18 this section shall be construed to affect the applicability  
19 of State laws generally applicable to persons or corpora-  
20 tions.

21 “(m) GUARANTEED AVAILABILITY OF COVERAGE TO  
22 HIPAA ELIGIBLE INDIVIDUALS.—To the extent that a  
23 health insurance issuer is offering coverage in a primary  
24 State that does not accommodate residents of secondary  
25 States or does not provide a working mechanism for resi-

1 dents of a secondary State, and the issuer is offering cov-  
 2 erage under this part in such secondary State which has  
 3 not adopted a qualified high risk pool as its acceptable  
 4 alternative mechanism (as defined in section 2744(c)(2)),  
 5 the issuer shall, with respect to any individual health in-  
 6 surance coverage offered in a secondary State under this  
 7 part, comply with the guaranteed availability requirements  
 8 for eligible individuals in section 2741.

9 **“SEC. 2797. PRIMARY STATE MUST MEET FEDERAL FLOOR**  
 10 **BEFORE ISSUER MAY SELL INTO SECONDARY**  
 11 **STATES.**

12 “A health insurance issuer may not offer, sell, or  
 13 issue individual health insurance coverage in a secondary  
 14 State if the State insurance commissioner does not use  
 15 a risk-based capital formula for the determination of cap-  
 16 ital and surplus requirements for all health insurance  
 17 issuers.

18 **“SEC. 2798. INDEPENDENT EXTERNAL APPEALS PROCE-**  
 19 **DURES.**

20 “(a) **RIGHT TO EXTERNAL APPEAL.**—A health insur-  
 21 ance issuer may not offer, sell, or issue individual health  
 22 insurance coverage in a secondary State under the provi-  
 23 sions of this title unless—

24 “(1) both the secondary State and the primary  
 25 State have legislation or regulations in place estab-

1       lishing an independent review process for individuals  
2       who are covered by individual health insurance cov-  
3       erage, or

4               “(2) in any case in which the requirements of  
5       subparagraph (A) are not met with respect to the ei-  
6       ther of such States, the issuer provides an inde-  
7       pendent review mechanism substantially identical (as  
8       determined by the applicable State authority of such  
9       State) to that prescribed in the ‘Health Carrier Ex-  
10      ternal Review Model Act’ of the National Association  
11      of Insurance Commissioners for all individuals who  
12      purchase insurance coverage under the terms of this  
13      part, except that, under such mechanism, the review  
14      is conducted by an independent medical reviewer, or  
15      a panel of such reviewers, with respect to whom the  
16      requirements of subsection (b) are met.

17      “(b) QUALIFICATIONS OF INDEPENDENT MEDICAL  
18      REVIEWERS.—In the case of any independent review  
19      mechanism referred to in subsection (a)(2)—

20               “(1) IN GENERAL.—In referring a denial of a  
21      claim to an independent medical reviewer, or to any  
22      panel of such reviewers, to conduct independent  
23      medical review, the issuer shall ensure that—

1           “(A) each independent medical reviewer  
2 meets the qualifications described in paragraphs  
3 (2) and (3);

4           “(B) with respect to each review, each re-  
5 viewer meets the requirements of paragraph (4)  
6 and the reviewer, or at least 1 reviewer on the  
7 panel, meets the requirements described in  
8 paragraph (5); and

9           “(C) compensation provided by the issuer  
10 to each reviewer is consistent with paragraph  
11 (6).

12           “(2) LICENSURE AND EXPERTISE.—Each inde-  
13 pendent medical reviewer shall be a physician  
14 (allopathic or osteopathic) or health care profes-  
15 sional who—

16           “(A) is appropriately credentialed or li-  
17 censed in 1 or more States to deliver health  
18 care services; and

19           “(B) typically treats the condition, makes  
20 the diagnosis, or provides the type of treatment  
21 under review.

22           “(3) INDEPENDENCE.—

23           “(A) IN GENERAL.—Subject to subpara-  
24 graph (B), each independent medical reviewer  
25 in a case shall—

1           “(i) not be a related party (as defined  
2           in paragraph (7));

3           “(ii) not have a material familial, fi-  
4           nancial, or professional relationship with  
5           such a party; and

6           “(iii) not otherwise have a conflict of  
7           interest with such a party (as determined  
8           under regulations).

9           “(B) EXCEPTION.—Nothing in subpara-  
10          graph (A) shall be construed to—

11           “(i) prohibit an individual, solely on  
12           the basis of affiliation with the issuer,  
13           from serving as an independent medical re-  
14           viewer if—

15           “(I) a non-affiliated individual is  
16           not reasonably available;

17           “(II) the affiliated individual is  
18           not involved in the provision of items  
19           or services in the case under review;

20           “(III) the fact of such an affili-  
21           ation is disclosed to the issuer and the  
22           enrollee (or authorized representative)  
23           and neither party objects; and

24           “(IV) the affiliated individual is  
25           not an employee of the issuer and

1 does not provide services exclusively or  
 2 primarily to or on behalf of the issuer;

3 “(ii) prohibit an individual who has  
 4 staff privileges at the institution where the  
 5 treatment involved takes place from serv-  
 6 ing as an independent medical reviewer  
 7 merely on the basis of such affiliation if  
 8 the affiliation is disclosed to the issuer and  
 9 the enrollee (or authorized representative),  
 10 and neither party objects; or

11 “(iii) prohibit receipt of compensation  
 12 by an independent medical reviewer from  
 13 an entity if the compensation is provided  
 14 consistent with paragraph (6).

15 “(4) PRACTICING HEALTH CARE PROFESSIONAL  
 16 IN SAME FIELD.—

17 “(A) IN GENERAL.—In a case involving  
 18 treatment, or the provision of items or serv-  
 19 ices—

20 “(i) by a physician, a reviewer shall be  
 21 a practicing physician (allopathic or osteo-  
 22 pathic) of the same or similar specialty, as  
 23 a physician who, acting within the appro-  
 24 priate scope of practice within the State in  
 25 which the service is provided or rendered,

1 typically treats the condition, makes the  
2 diagnosis, or provides the type of treat-  
3 ment under review; or

4 “(ii) by a non-physician health care  
5 professional, the reviewer, or at least 1  
6 member of the review panel, shall be a  
7 practicing non-physician health care pro-  
8 fessional of the same or similar specialty  
9 as the non-physician health care profes-  
10 sional who, acting within the appropriate  
11 scope of practice within the State in which  
12 the service is provided or rendered, typi-  
13 cally treats the condition, makes the diag-  
14 nosis, or provides the type of treatment  
15 under review.

16 “(B) PRACTICING DEFINED.—For pur-  
17 poses of this paragraph, the term ‘practicing’  
18 means, with respect to an individual who is a  
19 physician or other health care professional, that  
20 the individual provides health care services to  
21 individual patients on average at least 2 days  
22 per week.

23 “(5) PEDIATRIC EXPERTISE.—In the case of an  
24 external review relating to a child, a reviewer shall  
25 have expertise under paragraph (2) in pediatrics.

1           “(6) LIMITATIONS ON REVIEWER COMPENSA-  
2           TION.—Compensation provided by the issuer to an  
3           independent medical reviewer in connection with a  
4           review under this section shall—

5                   “(A) not exceed a reasonable level; and

6                   “(B) not be contingent on the decision ren-  
7           dered by the reviewer.

8           “(7) RELATED PARTY DEFINED.—For purposes  
9           of this section, the term ‘related party’ means, with  
10          respect to a denial of a claim under a coverage relat-  
11          ing to an enrollee, any of the following:

12                   “(A) The issuer involved, or any fiduciary,  
13          officer, director, or employee of the issuer.

14                   “(B) The enrollee (or authorized represent-  
15          ative).

16                   “(C) The health care professional that pro-  
17          vides the items or services involved in the de-  
18          nial.

19                   “(D) The institution at which the items or  
20          services (or treatment) involved in the denial  
21          are provided.

22                   “(E) The manufacturer of any drug or  
23          other item that is included in the items or serv-  
24          ices involved in the denial.



1           “(F) Any other party determined under  
2           any regulations to have a substantial interest in  
3           the denial involved.

4           “(8) DEFINITIONS.—For purposes of this sub-  
5           section:

6           “(A) ENROLLEE.—The term ‘enrollee’  
7           means, with respect to health insurance cov-  
8           erage offered by a health insurance issuer, an  
9           individual enrolled with the issuer to receive  
10          such coverage.

11          “(B) HEALTH CARE PROFESSIONAL.—The  
12          term ‘health care professional’ means an indi-  
13          vidual who is licensed, accredited, or certified  
14          under State law to provide specified health care  
15          services and who is operating within the scope  
16          of such licensure, accreditation, or certification.

17       **“SEC. 2799. ENFORCEMENT.**

18          “(a) IN GENERAL.—Subject to subsection (b), with  
19          respect to specific individual health insurance coverage the  
20          primary State for such coverage has sole jurisdiction to  
21          enforce the primary State’s covered laws in the primary  
22          State and any secondary State.

23          “(b) SECONDARY STATE’S AUTHORITY.—Nothing in  
24          subsection (a) shall be construed to affect the authority

1 of a secondary State to enforce its laws as set forth in  
2 the exception specified in section 2796(b)(1).

3 “(c) COURT INTERPRETATION.—In reviewing action  
4 initiated by the applicable secondary State authority, the  
5 court of competent jurisdiction shall apply the covered  
6 laws of the primary State.

7 “(d) NOTICE OF COMPLIANCE FAILURE.—In the case  
8 of individual health insurance coverage offered in a sec-  
9 ondary State that fails to comply with the covered laws  
10 of the primary State, the applicable State authority of the  
11 secondary State may notify the applicable State authority  
12 of the primary State.”.

13 (b) EFFECTIVE DATE.—The amendment made by  
14 subsection (a) shall apply to individual health insurance  
15 coverage offered, issued, or sold after the date that is one  
16 year after the date of the enactment of this Act.

17 (c) GAO ONGOING STUDY AND REPORTS.—

18 (1) STUDY.—The Comptroller General of the  
19 United States shall conduct an ongoing study con-  
20 cerning the effect of the amendment made by sub-  
21 section (a) on—

22 (A) the number of uninsured and under-in-  
23 sured;

1 (B) the availability and cost of health in-  
2 surance policies for individuals with pre-existing  
3 medical conditions;

4 (C) the availability and cost of health in-  
5 surance policies generally;

6 (D) the elimination or reduction of dif-  
7 ferent types of benefits under health insurance  
8 policies offered in different States; and

9 (E) cases of fraud or abuse relating to  
10 health insurance coverage offered under such  
11 amendment and the resolution of such cases.

12 (2) ANNUAL REPORTS.—The Comptroller Gen-  
13 eral shall submit to Congress an annual report, after  
14 the end of each of the 5 years following the effective  
15 date of the amendment made by subsection (a), on  
16 the ongoing study conducted under paragraph (1).

17 (d) SEVERABILITY.—If any provision of this title or  
18 the application of such provision to any person or cir-  
19 cumstance is held to be unconstitutional, the remainder  
20 of this title and the application of the provisions of such  
21 to any other person or circumstance shall not be affected.

22 **SEC. 112. SMALL BUSINESS HEALTH FAIRNESS.**

23 (a) RULES GOVERNING ASSOCIATION HEALTH  
24 PLANS.—



1 1986)), for substantial purposes other than that of  
2 obtaining or providing medical care;

3 “(2) is established as a permanent entity which  
4 receives the active support of its members and re-  
5 quires for membership payment on a periodic basis  
6 of dues or payments necessary to maintain eligibility  
7 for membership in the sponsor; and

8 “(3) does not condition membership, such dues  
9 or payments, or coverage under the plan on the  
10 basis of health status-related factors with respect to  
11 the employees of its members (or affiliated mem-  
12 bers), or the dependents of such employees, and does  
13 not condition such dues or payments on the basis of  
14 group health plan participation.

15 Any sponsor consisting of an association of entities which  
16 meet the requirements of paragraphs (1), (2), and (3)  
17 shall be deemed to be a sponsor described in this sub-  
18 section.

19 **“SEC. 802. CERTIFICATION OF ASSOCIATION HEALTH**  
20 **PLANS.**

21 “(a) IN GENERAL.—The applicable authority shall  
22 prescribe by regulation a procedure under which, subject  
23 to subsection (b), the applicable authority shall certify as-  
24 sociation health plans which apply for certification as  
25 meeting the requirements of this part.

1           “(b) STANDARDS.—Under the procedure prescribed  
2 pursuant to subsection (a), in the case of an association  
3 health plan that provides at least one benefit option which  
4 does not consist of health insurance coverage, the applica-  
5 ble authority shall certify such plan as meeting the re-  
6 quirements of this part only if the applicable authority is  
7 satisfied that the applicable requirements of this part are  
8 met (or, upon the date on which the plan is to commence  
9 operations, will be met) with respect to the plan.

10           “(c) REQUIREMENTS APPLICABLE TO CERTIFIED  
11 PLANS.—An association health plan with respect to which  
12 certification under this part is in effect shall meet the ap-  
13 plicable requirements of this part, effective on the date  
14 of certification (or, if later, on the date on which the plan  
15 is to commence operations).

16           “(d) REQUIREMENTS FOR CONTINUED CERTIFI-  
17 CATION.—The applicable authority may provide by regula-  
18 tion for continued certification of association health plans  
19 under this part.

20           “(e) CLASS CERTIFICATION FOR FULLY INSURED  
21 PLANS.—The applicable authority shall establish a class  
22 certification procedure for association health plans under  
23 which all benefits consist of health insurance coverage.  
24 Under such procedure, the applicable authority shall pro-  
25 vide for the granting of certification under this part to

1 the plans in each class of such association health plans  
2 upon appropriate filing under such procedure in connec-  
3 tion with plans in such class and payment of the pre-  
4 scribed fee under section 807(a).

5 “(f) CERTIFICATION OF SELF-INSURED ASSOCIATION  
6 HEALTH PLANS.—An association health plan which offers  
7 one or more benefit options which do not consist of health  
8 insurance coverage may be certified under this part only  
9 if such plan consists of any of the following:

10 “(1) a plan which offered such coverage on the  
11 date of the enactment of this part,

12 “(2) a plan under which the sponsor does not  
13 restrict membership to one or more trades and busi-  
14 nesses or industries and whose eligible participating  
15 employers represent a broad cross-section of trades  
16 and businesses or industries, or

17 “(3) a plan whose eligible participating employ-  
18 ers represent one or more trades or businesses, or  
19 one or more industries, consisting of any of the fol-  
20 lowing: agriculture; equipment and automobile deal-  
21 erships; barbering and cosmetology; certified public  
22 accounting practices; child care; construction; dance,  
23 theatrical and orchestra productions; disinfecting  
24 and pest control; financial services; fishing; food  
25 service establishments; hospitals; labor organiza-





1 and which is responsible for all operations of the  
2 plan.

3 “(2) RULES OF OPERATION AND FINANCIAL  
4 CONTROLS.—The board of trustees has in effect  
5 rules of operation and financial controls, based on a  
6 3-year plan of operation, adequate to carry out the  
7 terms of the plan and to meet all requirements of  
8 this title applicable to the plan.

9 “(3) RULES GOVERNING RELATIONSHIP TO  
10 PARTICIPATING EMPLOYERS AND TO CONTRAC-  
11 TORS.—

12 “(A) BOARD MEMBERSHIP.—

13 “(i) IN GENERAL.—Except as pro-  
14 vided in clauses (ii) and (iii), the members  
15 of the board of trustees are individuals se-  
16 lected from individuals who are the owners,  
17 officers, directors, or employees of the par-  
18 ticipating employers or who are partners in  
19 the participating employers and actively  
20 participate in the business.

21 “(ii) LIMITATION.—

22 “(I) GENERAL RULE.—Except as  
23 provided in subclauses (II) and (III),  
24 no such member is an owner, officer,  
25 director, or employee of, or partner in,

1 a contract administrator or other  
2 service provider to the plan.

3 “(II) LIMITED EXCEPTION FOR  
4 PROVIDERS OF SERVICES SOLELY ON  
5 BEHALF OF THE SPONSOR.—Officers  
6 or employees of a sponsor which is a  
7 service provider (other than a contract  
8 administrator) to the plan may be  
9 members of the board if they con-  
10 stitute not more than 25 percent of  
11 the membership of the board and they  
12 do not provide services to the plan  
13 other than on behalf of the sponsor.

14 “(III) TREATMENT OF PRO-  
15 VIDERS OF MEDICAL CARE.—In the  
16 case of a sponsor which is an associa-  
17 tion whose membership consists pri-  
18 marily of providers of medical care,  
19 subclause (I) shall not apply in the  
20 case of any service provider described  
21 in subclause (I) who is a provider of  
22 medical care under the plan.

23 “(iii) CERTAIN PLANS EXCLUDED.—  
24 Clause (i) shall not apply to an association

1 health plan which is in existence on the  
2 date of the enactment of this part.

3 “(B) SOLE AUTHORITY.—The board has  
4 sole authority under the plan to approve appli-  
5 cations for participation in the plan and to con-  
6 tract with a service provider to administer the  
7 day-to-day affairs of the plan.

8 “(c) TREATMENT OF FRANCHISE NETWORKS.—In  
9 the case of a group health plan which is established and  
10 maintained by a franchiser for a franchise network con-  
11 sisting of its franchisees—

12 “(1) the requirements of subsection (a) and sec-  
13 tion 801(a) shall be deemed met if such require-  
14 ments would otherwise be met if the franchiser were  
15 deemed to be the sponsor referred to in section  
16 801(b), such network were deemed to be an associa-  
17 tion described in section 801(b), and each franchisee  
18 were deemed to be a member (of the association and  
19 the sponsor) referred to in section 801(b); and

20 “(2) the requirements of section 804(a)(1) shall  
21 be deemed met.

22 The Secretary may by regulation define for purposes of  
23 this subsection the terms ‘franchiser’, ‘franchise network’,  
24 and ‘franchisee’.

1 **“SEC. 804. PARTICIPATION AND COVERAGE REQUIRE-**  
2 **MENTS.**

3 “(a) COVERED EMPLOYERS AND INDIVIDUALS.—The  
4 requirements of this subsection are met with respect to  
5 an association health plan if, under the terms of the  
6 plan—

7 “(1) each participating employer must be—

8 “(A) a member of the sponsor,

9 “(B) the sponsor, or

10 “(C) an affiliated member of the sponsor  
11 with respect to which the requirements of sub-  
12 section (b) are met,

13 except that, in the case of a sponsor which is a pro-  
14 fessional association or other individual-based asso-  
15 ciation, if at least one of the officers, directors, or  
16 employees of an employer, or at least one of the in-  
17 dividuals who are partners in an employer and who  
18 actively participates in the business, is a member or  
19 such an affiliated member of the sponsor, partici-  
20 pating employers may also include such employer;  
21 and

22 “(2) all individuals commencing coverage under  
23 the plan after certification under this part must  
24 be—

25 “(A) active or retired owners (including  
26 self-employed individuals), officers, directors, or

1 employees of, or partners in, participating em-  
2 ployers; or

3 “(B) the beneficiaries of individuals de-  
4 scribed in subparagraph (A).

5 “(b) COVERAGE OF PREVIOUSLY UNINSURED EM-  
6 PLOYEES.—In the case of an association health plan in  
7 existence on the date of the enactment of this part, an  
8 affiliated member of the sponsor of the plan may be of-  
9 fered coverage under the plan as a participating employer  
10 only if—

11 “(1) the affiliated member was an affiliated  
12 member on the date of certification under this part;  
13 or

14 “(2) during the 12-month period preceding the  
15 date of the offering of such coverage, the affiliated  
16 member has not maintained or contributed to a  
17 group health plan with respect to any of its employ-  
18 ees who would otherwise be eligible to participate in  
19 such association health plan.

20 “(c) INDIVIDUAL MARKET UNAFFECTED.—The re-  
21 quirements of this subsection are met with respect to an  
22 association health plan if, under the terms of the plan,  
23 no participating employer may provide health insurance  
24 coverage in the individual market for any employee not  
25 covered under the plan which is similar to the coverage

1 contemporaneously provided to employees of the employer  
2 under the plan, if such exclusion of the employee from cov-  
3 erage under the plan is based on a health status-related  
4 factor with respect to the employee and such employee  
5 would, but for such exclusion on such basis, be eligible  
6 for coverage under the plan.

7       “(d) PROHIBITION OF DISCRIMINATION AGAINST  
8 EMPLOYERS AND EMPLOYEES ELIGIBLE TO PARTICI-  
9 PATE.—The requirements of this subsection are met with  
10 respect to an association health plan if—

11               “(1) under the terms of the plan, all employers  
12 meeting the preceding requirements of this section  
13 are eligible to qualify as participating employers for  
14 all geographically available coverage options, unless,  
15 in the case of any such employer, participation or  
16 contribution requirements of the type referred to in  
17 section 2711 of the Public Health Service Act are  
18 not met;

19               “(2) upon request, any employer eligible to par-  
20 ticipate is furnished information regarding all cov-  
21 erage options available under the plan; and

22               “(3) the applicable requirements of sections  
23 701, 702, and 703 are met with respect to the plan.

1 **“SEC. 805. OTHER REQUIREMENTS RELATING TO PLAN**  
2 **DOCUMENTS, CONTRIBUTION RATES, AND**  
3 **BENEFIT OPTIONS.**

4 “(a) IN GENERAL.—The requirements of this section  
5 are met with respect to an association health plan if the  
6 following requirements are met:

7 “(1) CONTENTS OF GOVERNING INSTRU-  
8 MENTS.—The instruments governing the plan in-  
9 clude a written instrument, meeting the require-  
10 ments of an instrument required under section  
11 402(a)(1), which—

12 “(A) provides that the board of trustees  
13 serves as the named fiduciary required for plans  
14 under section 402(a)(1) and serves in the ca-  
15 pacity of a plan administrator (referred to in  
16 section 3(16)(A));

17 “(B) provides that the sponsor of the plan  
18 is to serve as plan sponsor (referred to in sec-  
19 tion 3(16)(B)); and

20 “(C) incorporates the requirements of sec-  
21 tion 806.

22 “(2) CONTRIBUTION RATES MUST BE NON-  
23 DISCRIMINATORY.—

24 “(A) The contribution rates for any par-  
25 ticipating small employer do not vary on the  
26 basis of any health status-related factor in rela-

1           tion to employees of such employer or their  
2           beneficiaries and do not vary on the basis of the  
3           type of business or industry in which such em-  
4           ployer is engaged.

5           “(B) Nothing in this title or any other pro-  
6           vision of law shall be construed to preclude an  
7           association health plan, or a health insurance  
8           issuer offering health insurance coverage in  
9           connection with an association health plan,  
10          from—

11                   “(i) setting contribution rates based  
12                   on the claims experience of the plan; or

13                   “(ii) varying contribution rates for  
14                   small employers in a State to the extent  
15                   that such rates could vary using the same  
16                   methodology employed in such State for  
17                   regulating premium rates in the small  
18                   group market with respect to health insur-  
19                   ance coverage offered in connection with  
20                   bona fide associations (within the meaning  
21                   of section 2791(d)(3) of the Public Health  
22                   Service Act),

23          subject to the requirements of section 702(b)  
24          relating to contribution rates.



1           “(3) FLOOR FOR NUMBER OF COVERED INDI-  
2           VIDUALS WITH RESPECT TO CERTAIN PLANS.—If  
3           any benefit option under the plan does not consist  
4           of health insurance coverage, the plan has as of the  
5           beginning of the plan year not fewer than 1,000 par-  
6           ticipants and beneficiaries.

7           “(4) MARKETING REQUIREMENTS.—

8           “(A) IN GENERAL.—If a benefit option  
9           which consists of health insurance coverage is  
10          offered under the plan, State-licensed insurance  
11          agents shall be used to distribute to small em-  
12          ployers coverage which does not consist of  
13          health insurance coverage in a manner com-  
14          parable to the manner in which such agents are  
15          used to distribute health insurance coverage.

16          “(B) STATE-LICENSED INSURANCE  
17          AGENTS.—For purposes of subparagraph (A),  
18          the term ‘State-licensed insurance agents’  
19          means one or more agents who are licensed in  
20          a State and are subject to the laws of such  
21          State relating to licensure, qualification, test-  
22          ing, examination, and continuing education of  
23          persons authorized to offer, sell, or solicit  
24          health insurance coverage in such State.

1           “(5) REGULATORY REQUIREMENTS.—Such  
2 other requirements as the applicable authority deter-  
3 mines are necessary to carry out the purposes of this  
4 part, which shall be prescribed by the applicable au-  
5 thority by regulation.

6           “(b) ABILITY OF ASSOCIATION HEALTH PLANS TO  
7 DESIGN BENEFIT OPTIONS.—Subject to section 514(d),  
8 nothing in this part or any provision of State law (as de-  
9 fined in section 514(c)(1)) shall be construed to preclude  
10 an association health plan, or a health insurance issuer  
11 offering health insurance coverage in connection with an  
12 association health plan, from exercising its sole discretion  
13 in selecting the specific items and services consisting of  
14 medical care to be included as benefits under such plan  
15 or coverage, except (subject to section 514) in the case  
16 of (1) any law to the extent that it is not preempted under  
17 section 731(a)(1) with respect to matters governed by sec-  
18 tion 711, 712, or 713, or (2) any law of the State with  
19 which filing and approval of a policy type offered by the  
20 plan was initially obtained to the extent that such law pro-  
21 hibits an exclusion of a specific disease from such cov-  
22 erage.

1 **“SEC. 806. MAINTENANCE OF RESERVES AND PROVISIONS**  
2 **FOR SOLVENCY FOR PLANS PROVIDING**  
3 **HEALTH BENEFITS IN ADDITION TO HEALTH**  
4 **INSURANCE COVERAGE.**

5 “(a) IN GENERAL.—The requirements of this section  
6 are met with respect to an association health plan if—

7 “(1) the benefits under the plan consist solely  
8 of health insurance coverage; or

9 “(2) if the plan provides any additional benefit  
10 options which do not consist of health insurance cov-  
11 erage, the plan—

12 “(A) establishes and maintains reserves  
13 with respect to such additional benefit options,  
14 in amounts recommended by the qualified actu-  
15 ary, consisting of—

16 “(i) a reserve sufficient for unearned  
17 contributions;

18 “(ii) a reserve sufficient for benefit li-  
19 abilities which have been incurred, which  
20 have not been satisfied, and for which risk  
21 of loss has not yet been transferred, and  
22 for expected administrative costs with re-  
23 spect to such benefit liabilities;

24 “(iii) a reserve sufficient for any other  
25 obligations of the plan; and

1           “(iv) a reserve sufficient for a margin  
2           of error and other fluctuations, taking into  
3           account the specific circumstances of the  
4           plan; and

5           “(B) establishes and maintains aggregate  
6           and specific excess/stop loss insurance and sol-  
7           vency indemnification, with respect to such ad-  
8           ditional benefit options for which risk of loss  
9           has not yet been transferred, as follows:

10           “(i) The plan shall secure aggregate  
11           excess/stop loss insurance for the plan with  
12           an attachment point which is not greater  
13           than 125 percent of expected gross annual  
14           claims. The applicable authority may by  
15           regulation provide for upward adjustments  
16           in the amount of such percentage in speci-  
17           fied circumstances in which the plan spe-  
18           cifically provides for and maintains re-  
19           serves in excess of the amounts required  
20           under subparagraph (A).

21           “(ii) The plan shall secure specific ex-  
22           cess/stop loss insurance for the plan with  
23           an attachment point which is at least equal  
24           to an amount recommended by the plan’s  
25           qualified actuary. The applicable authority

1           may by regulation provide for adjustments  
2           in the amount of such insurance in speci-  
3           fied circumstances in which the plan spe-  
4           cifically provides for and maintains re-  
5           serves in excess of the amounts required  
6           under subparagraph (A).

7           “(iii) The plan shall secure indem-  
8           nification insurance for any claims which  
9           the plan is unable to satisfy by reason of  
10          a plan termination.

11 Any person issuing to a plan insurance described in clause  
12 (i), (ii), or (iii) of subparagraph (B) shall notify the Sec-  
13 retary of any failure of premium payment meriting can-  
14 cellation of the policy prior to undertaking such a cancella-  
15 tion. Any regulations prescribed by the applicable author-  
16 ity pursuant to clause (i) or (ii) of subparagraph (B) may  
17 allow for such adjustments in the required levels of excess/  
18 stop loss insurance as the qualified actuary may rec-  
19 ommend, taking into account the specific circumstances  
20 of the plan.

21          “(b) MINIMUM SURPLUS IN ADDITION TO CLAIMS  
22 RESERVES.—In the case of any association health plan de-  
23 scribed in subsection (a)(2), the requirements of this sub-  
24 section are met if the plan establishes and maintains sur-  
25 plus in an amount at least equal to—

1           “(1) \$500,000, or

2           “(2) such greater amount (but not greater than  
3        \$2,000,000) as may be set forth in regulations pre-  
4        scribed by the applicable authority, considering the  
5        level of aggregate and specific excess/stop loss insur-  
6        ance provided with respect to such plan and other  
7        factors related to solvency risk, such as the plan’s  
8        projected levels of participation or claims, the nature  
9        of the plan’s liabilities, and the types of assets avail-  
10       able to assure that such liabilities are met.

11       “(c) **ADDITIONAL REQUIREMENTS.**—In the case of  
12 any association health plan described in subsection (a)(2),  
13 the applicable authority may provide such additional re-  
14 quirements relating to reserves, excess/stop loss insurance,  
15 and indemnification insurance as the applicable authority  
16 considers appropriate. Such requirements may be provided  
17 by regulation with respect to any such plan or any class  
18 of such plans.

19       “(d) **ADJUSTMENTS FOR EXCESS/STOP LOSS INSUR-**  
20 **ANCE.**—The applicable authority may provide for adjust-  
21 ments to the levels of reserves otherwise required under  
22 subsections (a) and (b) with respect to any plan or class  
23 of plans to take into account excess/stop loss insurance  
24 provided with respect to such plan or plans.

1       “(e) ALTERNATIVE MEANS OF COMPLIANCE.—The  
2 applicable authority may permit an association health plan  
3 described in subsection (a)(2) to substitute, for all or part  
4 of the requirements of this section (except subsection  
5 (a)(2)(B)(iii)), such security, guarantee, hold-harmless ar-  
6 rangement, or other financial arrangement as the applica-  
7 ble authority determines to be adequate to enable the plan  
8 to fully meet all its financial obligations on a timely basis  
9 and is otherwise no less protective of the interests of par-  
10 ticipants and beneficiaries than the requirements for  
11 which it is substituted. The applicable authority may take  
12 into account, for purposes of this subsection, evidence pro-  
13 vided by the plan or sponsor which demonstrates an as-  
14 sumption of liability with respect to the plan. Such evi-  
15 dence may be in the form of a contract of indemnification,  
16 lien, bonding, insurance, letter of credit, recourse under  
17 applicable terms of the plan in the form of assessments  
18 of participating employers, security, or other financial ar-  
19 rangement.

20       “(f) MEASURES TO ENSURE CONTINUED PAYMENT  
21 OF BENEFITS BY CERTAIN PLANS IN DISTRESS.—

22               “(1) PAYMENTS BY CERTAIN PLANS TO ASSO-  
23 CIATION HEALTH PLAN FUND.—

24                       “(A) IN GENERAL.—In the case of an as-  
25 sociation health plan described in subsection

1 (a)(2), the requirements of this subsection are  
2 met if the plan makes payments into the Asso-  
3 ciation Health Plan Fund under this subpara-  
4 graph when they are due. Such payments shall  
5 consist of annual payments in the amount of  
6 \$5,000, and, in addition to such annual pay-  
7 ments, such supplemental payments as the Sec-  
8 retary may determine to be necessary under  
9 paragraph (2). Payments under this paragraph  
10 are payable to the Fund at the time determined  
11 by the Secretary. Initial payments are due in  
12 advance of certification under this part. Pay-  
13 ments shall continue to accrue until a plan's as-  
14 sets are distributed pursuant to a termination  
15 procedure.

16 “(B) PENALTIES FOR FAILURE TO MAKE  
17 PAYMENTS.—If any payment is not made by a  
18 plan when it is due, a late payment charge of  
19 not more than 100 percent of the payment  
20 which was not timely paid shall be payable by  
21 the plan to the Fund.

22 “(C) CONTINUED DUTY OF THE SEC-  
23 RETARY.—The Secretary shall not cease to  
24 carry out the provisions of paragraph (2) on ac-



1           count of the failure of a plan to pay any pay-  
2           ment when due.

3           “(2) PAYMENTS BY SECRETARY TO CONTINUE  
4           EXCESS/STOP LOSS INSURANCE COVERAGE AND IN-  
5           DEMNFICATION INSURANCE COVERAGE FOR CER-  
6           TAIN PLANS.—In any case in which the applicable  
7           authority determines that there is, or that there is  
8           reason to believe that there will be: (A) a failure to  
9           take necessary corrective actions under section  
10          809(a) with respect to an association health plan de-  
11          scribed in subsection (a)(2); or (B) a termination of  
12          such a plan under section 809(b) or 810(b)(8) (and,  
13          if the applicable authority is not the Secretary, cer-  
14          tifies such determination to the Secretary), the Sec-  
15          retary shall determine the amounts necessary to  
16          make payments to an insurer (designated by the  
17          Secretary) to maintain in force excess/stop loss in-  
18          surance coverage or indemnification insurance cov-  
19          erage for such plan, if the Secretary determines that  
20          there is a reasonable expectation that, without such  
21          payments, claims would not be satisfied by reason of  
22          termination of such coverage. The Secretary shall, to  
23          the extent provided in advance in appropriation  
24          Acts, pay such amounts so determined to the insurer  
25          designated by the Secretary.

1           “(3) ASSOCIATION HEALTH PLAN FUND.—

2                   “(A) IN GENERAL.—There is established  
3           on the books of the Treasury a fund to be  
4           known as the ‘Association Health Plan Fund’.  
5           The Fund shall be available for making pay-  
6           ments pursuant to paragraph (2). The Fund  
7           shall be credited with payments received pursu-  
8           ant to paragraph (1)(A), penalties received pur-  
9           suant to paragraph (1)(B); and earnings on in-  
10          vestments of amounts of the Fund under sub-  
11          paragraph (B).

12                   “(B) INVESTMENT.—Whenever the Sec-  
13          retary determines that the moneys of the fund  
14          are in excess of current needs, the Secretary  
15          may request the investment of such amounts as  
16          the Secretary determines advisable by the Sec-  
17          retary of the Treasury in obligations issued or  
18          guaranteed by the United States.

19                   “(g) EXCESS/STOP LOSS INSURANCE.—For purposes  
20          of this section—

21                   “(1) AGGREGATE EXCESS/STOP LOSS INSUR-  
22          ANCE.—The term ‘aggregate excess/stop loss insur-  
23          ance’ means, in connection with an association  
24          health plan, a contract—

1           “(A) under which an insurer (meeting such  
2           minimum standards as the applicable authority  
3           may prescribe by regulation) provides for pay-  
4           ment to the plan with respect to aggregate  
5           claims under the plan in excess of an amount  
6           or amounts specified in such contract;

7           “(B) which is guaranteed renewable; and

8           “(C) which allows for payment of pre-  
9           miums by any third party on behalf of the in-  
10          sured plan.

11          “(2) SPECIFIC EXCESS/STOP LOSS INSUR-  
12          ANCE.—The term ‘specific excess/stop loss insur-  
13          ance’ means, in connection with an association  
14          health plan, a contract—

15               “(A) under which an insurer (meeting such  
16               minimum standards as the applicable authority  
17               may prescribe by regulation) provides for pay-  
18               ment to the plan with respect to claims under  
19               the plan in connection with a covered individual  
20               in excess of an amount or amounts specified in  
21               such contract in connection with such covered  
22               individual;

23               “(B) which is guaranteed renewable; and

1           “(C) which allows for payment of pre-  
2           miums by any third party on behalf of the in-  
3           sured plan.

4           “(h) INDEMNIFICATION INSURANCE.—For purposes  
5 of this section, the term ‘indemnification insurance’  
6 means, in connection with an association health plan, a  
7 contract—

8           “(1) under which an insurer (meeting such min-  
9           imum standards as the applicable authority may pre-  
10          scribe by regulation) provides for payment to the  
11          plan with respect to claims under the plan which the  
12          plan is unable to satisfy by reason of a termination  
13          pursuant to section 809(b) (relating to mandatory  
14          termination);

15          “(2) which is guaranteed renewable and  
16          noncancellable for any reason (except as the applica-  
17          ble authority may prescribe by regulation); and

18          “(3) which allows for payment of premiums by  
19          any third party on behalf of the insured plan.

20          “(i) RESERVES.—For purposes of this section, the  
21 term ‘reserves’ means, in connection with an association  
22 health plan, plan assets which meet the fiduciary stand-  
23 ards under part 4 and such additional requirements re-  
24 garding liquidity as the applicable authority may prescribe  
25 by regulation.

1 “(j) SOLVENCY STANDARDS WORKING GROUP.—

2 “(1) IN GENERAL.—Within 90 days after the  
3 date of the enactment of this part, the applicable au-  
4 thority shall establish a Solvency Standards Working  
5 Group. In prescribing the initial regulations under  
6 this section, the applicable authority shall take into  
7 account the recommendations of such Working  
8 Group.

9 “(2) MEMBERSHIP.—The Working Group shall  
10 consist of not more than 15 members appointed by  
11 the applicable authority. The applicable authority  
12 shall include among persons invited to membership  
13 on the Working Group at least one of each of the  
14 following:

15 “(A) a representative of the National Asso-  
16 ciation of Insurance Commissioners;

17 “(B) a representative of the American  
18 Academy of Actuaries;

19 “(C) a representative of the State govern-  
20 ments, or their interests;

21 “(D) a representative of existing self-in-  
22 sured arrangements, or their interests;

23 “(E) a representative of associations of the  
24 type referred to in section 801(b)(1), or their  
25 interests; and

1           “(F) a representative of multiemployer  
2           plans that are group health plans, or their in-  
3           terests.

4   **“SEC. 807. REQUIREMENTS FOR APPLICATION AND RE-**  
5           **LATED REQUIREMENTS.**

6           “(a) FILING FEE.—Under the procedure prescribed  
7           pursuant to section 802(a), an association health plan  
8           shall pay to the applicable authority at the time of filing  
9           an application for certification under this part a filing fee  
10          in the amount of \$5,000, which shall be available in the  
11          case of the Secretary, to the extent provided in appropria-  
12          tion Acts, for the sole purpose of administering the certifi-  
13          cation procedures applicable with respect to association  
14          health plans.

15          “(b) INFORMATION TO BE INCLUDED IN APPLICA-  
16          TION FOR CERTIFICATION.—An application for certifi-  
17          cation under this part meets the requirements of this sec-  
18          tion only if it includes, in a manner and form which shall  
19          be prescribed by the applicable authority by regulation, at  
20          least the following information:

21                  “(1) IDENTIFYING INFORMATION.—The names  
22                  and addresses of—

23                          “(A) the sponsor; and

24                          “(B) the members of the board of trustees  
25                  of the plan.

1           “(2) STATES IN WHICH PLAN INTENDS TO DO  
2 BUSINESS.—The States in which participants and  
3 beneficiaries under the plan are to be located and  
4 the number of them expected to be located in each  
5 such State.

6           “(3) BONDING REQUIREMENTS.—Evidence pro-  
7 vided by the board of trustees that the bonding re-  
8 quirements of section 412 will be met as of the date  
9 of the application or (if later) commencement of op-  
10 erations.

11           “(4) PLAN DOCUMENTS.—A copy of the docu-  
12 ments governing the plan (including any bylaws and  
13 trust agreements), the summary plan description,  
14 and other material describing the benefits that will  
15 be provided to participants and beneficiaries under  
16 the plan.

17           “(5) AGREEMENTS WITH SERVICE PRO-  
18 VIDERS.—A copy of any agreements between the  
19 plan and contract administrators and other service  
20 providers.

21           “(6) FUNDING REPORT.—In the case of asso-  
22 ciation health plans providing benefits options in ad-  
23 dition to health insurance coverage, a report setting  
24 forth information with respect to such additional  
25 benefit options determined as of a date within the

1 120-day period ending with the date of the applica-  
2 tion, including the following:

3 “(A) RESERVES.—A statement, certified  
4 by the board of trustees of the plan, and a  
5 statement of actuarial opinion, signed by a  
6 qualified actuary, that all applicable require-  
7 ments of section 806 are or will be met in ac-  
8 cordance with regulations which the applicable  
9 authority shall prescribe.

10 “(B) ADEQUACY OF CONTRIBUTION  
11 RATES.—A statement of actuarial opinion,  
12 signed by a qualified actuary, which sets forth  
13 a description of the extent to which contribution  
14 rates are adequate to provide for the payment  
15 of all obligations and the maintenance of re-  
16 quired reserves under the plan for the 12-  
17 month period beginning with such date within  
18 such 120-day period, taking into account the  
19 expected coverage and experience of the plan. If  
20 the contribution rates are not fully adequate,  
21 the statement of actuarial opinion shall indicate  
22 the extent to which the rates are inadequate  
23 and the changes needed to ensure adequacy.

24 “(C) CURRENT AND PROJECTED VALUE OF  
25 ASSETS AND LIABILITIES.—A statement of ac-



1 tuarial opinion signed by a qualified actuary,  
2 which sets forth the current value of the assets  
3 and liabilities accumulated under the plan and  
4 a projection of the assets, liabilities, income,  
5 and expenses of the plan for the 12-month pe-  
6 riod referred to in subparagraph (B). The in-  
7 come statement shall identify separately the  
8 plan’s administrative expenses and claims.

9 “(D) COSTS OF COVERAGE TO BE  
10 CHARGED AND OTHER EXPENSES.—A state-  
11 ment of the costs of coverage to be charged, in-  
12 cluding an itemization of amounts for adminis-  
13 tration, reserves, and other expenses associated  
14 with the operation of the plan.

15 “(E) OTHER INFORMATION.—Any other  
16 information as may be determined by the appli-  
17 cable authority, by regulation, as necessary to  
18 carry out the purposes of this part.

19 “(c) FILING NOTICE OF CERTIFICATION WITH  
20 STATES.—A certification granted under this part to an  
21 association health plan shall not be effective unless written  
22 notice of such certification is filed with the applicable  
23 State authority of each State in which at least 25 percent  
24 of the participants and beneficiaries under the plan are  
25 located. For purposes of this subsection, an individual

1 shall be considered to be located in the State in which a  
2 known address of such individual is located or in which  
3 such individual is employed.

4 “(d) NOTICE OF MATERIAL CHANGES.—In the case  
5 of any association health plan certified under this part,  
6 descriptions of material changes in any information which  
7 was required to be submitted with the application for the  
8 certification under this part shall be filed in such form  
9 and manner as shall be prescribed by the applicable au-  
10 thority by regulation. The applicable authority may re-  
11 quire by regulation prior notice of material changes with  
12 respect to specified matters which might serve as the basis  
13 for suspension or revocation of the certification.

14 “(e) REPORTING REQUIREMENTS FOR CERTAIN AS-  
15 SOCIATION HEALTH PLANS.—An association health plan  
16 certified under this part which provides benefit options in  
17 addition to health insurance coverage for such plan year  
18 shall meet the requirements of section 103 by filing an  
19 annual report under such section which shall include infor-  
20 mation described in subsection (b)(6) with respect to the  
21 plan year and, notwithstanding section 104(a)(1)(A), shall  
22 be filed with the applicable authority not later than 90  
23 days after the close of the plan year (or on such later date  
24 as may be prescribed by the applicable authority). The ap-

1 plicable authority may require by regulation such interim  
2 reports as it considers appropriate.

3       “(f) ENGAGEMENT OF QUALIFIED ACTUARY.—The  
4 board of trustees of each association health plan which  
5 provides benefits options in addition to health insurance  
6 coverage and which is applying for certification under this  
7 part or is certified under this part shall engage, on behalf  
8 of all participants and beneficiaries, a qualified actuary  
9 who shall be responsible for the preparation of the mate-  
10 rials comprising information necessary to be submitted by  
11 a qualified actuary under this part. The qualified actuary  
12 shall utilize such assumptions and techniques as are nec-  
13 essary to enable such actuary to form an opinion as to  
14 whether the contents of the matters reported under this  
15 part—

16               “(1) are in the aggregate reasonably related to  
17       the experience of the plan and to reasonable expecta-  
18       tions; and

19               “(2) represent such actuary’s best estimate of  
20       anticipated experience under the plan.

21 The opinion by the qualified actuary shall be made with  
22 respect to, and shall be made a part of, the annual report.

1 **“SEC. 808. NOTICE REQUIREMENTS FOR VOLUNTARY TER-**  
 2 **MINATION.**

3 “Except as provided in section 809(b), an association  
 4 health plan which is or has been certified under this part  
 5 may terminate (upon or at any time after cessation of ac-  
 6 cruals in benefit liabilities) only if the board of trustees,  
 7 not less than 60 days before the proposed termination  
 8 date—

9 “(1) provides to the participants and bene-  
 10 ficiaries a written notice of intent to terminate stat-  
 11 ing that such termination is intended and the pro-  
 12 posed termination date;

13 “(2) develops a plan for winding up the affairs  
 14 of the plan in connection with such termination in  
 15 a manner which will result in timely payment of all  
 16 benefits for which the plan is obligated; and

17 “(3) submits such plan in writing to the appli-  
 18 cable authority.

19 Actions required under this section shall be taken in such  
 20 form and manner as may be prescribed by the applicable  
 21 authority by regulation.

22 **“SEC. 809. CORRECTIVE ACTIONS AND MANDATORY TERMI-**  
 23 **NATION.**

24 “(a) ACTIONS TO AVOID DEPLETION OF RE-  
 25 SERVES.—An association health plan which is certified  
 26 under this part and which provides benefits other than

1 health insurance coverage shall continue to meet the re-  
2 quirements of section 806, irrespective of whether such  
3 certification continues in effect. The board of trustees of  
4 such plan shall determine quarterly whether the require-  
5 ments of section 806 are met. In any case in which the  
6 board determines that there is reason to believe that there  
7 is or will be a failure to meet such requirements, or the  
8 applicable authority makes such a determination and so  
9 notifies the board, the board shall immediately notify the  
10 qualified actuary engaged by the plan, and such actuary  
11 shall, not later than the end of the next following month,  
12 make such recommendations to the board for corrective  
13 action as the actuary determines necessary to ensure com-  
14 pliance with section 806. Not later than 30 days after re-  
15 ceiving from the actuary recommendations for corrective  
16 actions, the board shall notify the applicable authority (in  
17 such form and manner as the applicable authority may  
18 prescribe by regulation) of such recommendations of the  
19 actuary for corrective action, together with a description  
20 of the actions (if any) that the board has taken or plans  
21 to take in response to such recommendations. The board  
22 shall thereafter report to the applicable authority, in such  
23 form and frequency as the applicable authority may speci-  
24 fy to the board, regarding corrective action taken by the  
25 board until the requirements of section 806 are met.

1       “(b) MANDATORY TERMINATION.—In any case in  
2 which—

3               “(1) the applicable authority has been notified  
4 under subsection (a) (or by an issuer of excess/stop  
5 loss insurance or indemnity insurance pursuant to  
6 section 806(a)) of a failure of an association health  
7 plan which is or has been certified under this part  
8 and is described in section 806(a)(2) to meet the re-  
9 quirements of section 806 and has not been notified  
10 by the board of trustees of the plan that corrective  
11 action has restored compliance with such require-  
12 ments; and

13               “(2) the applicable authority determines that  
14 there is a reasonable expectation that the plan will  
15 continue to fail to meet the requirements of section  
16 806,

17 the board of trustees of the plan shall, at the direction  
18 of the applicable authority, terminate the plan and, in the  
19 course of the termination, take such actions as the appli-  
20 cable authority may require, including satisfying any  
21 claims referred to in section 806(a)(2)(B)(iii) and recov-  
22 ering for the plan any liability under subsection  
23 (a)(2)(B)(iii) or (e) of section 806, as necessary to ensure  
24 that the affairs of the plan will be, to the maximum extent

1 possible, wound up in a manner which will result in timely  
2 provision of all benefits for which the plan is obligated.

3 **“SEC. 810. TRUSTEESHIP BY THE SECRETARY OF INSOL-**  
4 **VENT ASSOCIATION HEALTH PLANS PRO-**  
5 **VIDING HEALTH BENEFITS IN ADDITION TO**  
6 **HEALTH INSURANCE COVERAGE.**

7 “(a) APPOINTMENT OF SECRETARY AS TRUSTEE FOR  
8 INSOLVENT PLANS.—Whenever the Secretary determines  
9 that an association health plan which is or has been cer-  
10 tified under this part and which is described in section  
11 806(a)(2) will be unable to provide benefits when due or  
12 is otherwise in a financially hazardous condition, as shall  
13 be defined by the Secretary by regulation, the Secretary  
14 shall, upon notice to the plan, apply to the appropriate  
15 United States district court for appointment of the Sec-  
16 retary as trustee to administer the plan for the duration  
17 of the insolvency. The plan may appear as a party and  
18 other interested persons may intervene in the proceedings  
19 at the discretion of the court. The court shall appoint such  
20 Secretary trustee if the court determines that the trustee-  
21 ship is necessary to protect the interests of the partici-  
22 pants and beneficiaries or providers of medical care or to  
23 avoid any unreasonable deterioration of the financial con-  
24 dition of the plan. The trusteeship of such Secretary shall  
25 continue until the conditions described in the first sen-

1 tence of this subsection are remedied or the plan is termi-  
2 nated.

3 “(b) POWERS AS TRUSTEE.—The Secretary, upon  
4 appointment as trustee under subsection (a), shall have  
5 the power—

6 “(1) to do any act authorized by the plan, this  
7 title, or other applicable provisions of law to be done  
8 by the plan administrator or any trustee of the plan;

9 “(2) to require the transfer of all (or any part)  
10 of the assets and records of the plan to the Sec-  
11 retary as trustee;

12 “(3) to invest any assets of the plan which the  
13 Secretary holds in accordance with the provisions of  
14 the plan, regulations prescribed by the Secretary,  
15 and applicable provisions of law;

16 “(4) to require the sponsor, the plan adminis-  
17 trator, any participating employer, and any employee  
18 organization representing plan participants to fur-  
19 nish any information with respect to the plan which  
20 the Secretary as trustee may reasonably need in  
21 order to administer the plan;

22 “(5) to collect for the plan any amounts due the  
23 plan and to recover reasonable expenses of the trust-  
24 eeship;



1           “(6) to commence, prosecute, or defend on be-  
2 half of the plan any suit or proceeding involving the  
3 plan;

4           “(7) to issue, publish, or file such notices, state-  
5 ments, and reports as may be required by the Sec-  
6 retary by regulation or required by any order of the  
7 court;

8           “(8) to terminate the plan (or provide for its  
9 termination in accordance with section 809(b)) and  
10 liquidate the plan assets, to restore the plan to the  
11 responsibility of the sponsor, or to continue the  
12 trusteeship;

13           “(9) to provide for the enrollment of plan par-  
14 ticipants and beneficiaries under appropriate cov-  
15 erage options; and

16           “(10) to do such other acts as may be nec-  
17 essary to comply with this title or any order of the  
18 court and to protect the interests of plan partici-  
19 pants and beneficiaries and providers of medical  
20 care.

21           “(c) NOTICE OF APPOINTMENT.—As soon as prac-  
22 ticable after the Secretary’s appointment as trustee, the  
23 Secretary shall give notice of such appointment to—

24           “(1) the sponsor and plan administrator;

25           “(2) each participant;

1           “(3) each participating employer; and

2           “(4) if applicable, each employee organization  
3       which, for purposes of collective bargaining, rep-  
4       resents plan participants.

5           “(d) ADDITIONAL DUTIES.—Except to the extent in-  
6       consistent with the provisions of this title, or as may be  
7       otherwise ordered by the court, the Secretary, upon ap-  
8       pointment as trustee under this section, shall be subject  
9       to the same duties as those of a trustee under section 704  
10      of title 11, United States Code, and shall have the duties  
11      of a fiduciary for purposes of this title.

12          “(e) OTHER PROCEEDINGS.—An application by the  
13      Secretary under this subsection may be filed notwith-  
14      standing the pendency in the same or any other court of  
15      any bankruptcy, mortgage foreclosure, or equity receiver-  
16      ship proceeding, or any proceeding to reorganize, conserve,  
17      or liquidate such plan or its property, or any proceeding  
18      to enforce a lien against property of the plan.

19          “(f) JURISDICTION OF COURT.—

20               “(1) IN GENERAL.—Upon the filing of an appli-  
21      cation for the appointment as trustee or the issuance  
22      of a decree under this section, the court to which the  
23      application is made shall have exclusive jurisdiction  
24      of the plan involved and its property wherever lo-  
25      cated with the powers, to the extent consistent with

1 the purposes of this section, of a court of the United  
2 States having jurisdiction over cases under chapter  
3 11 of title 11, United States Code. Pending an adju-  
4 dication under this section such court shall stay, and  
5 upon appointment by it of the Secretary as trustee,  
6 such court shall continue the stay of, any pending  
7 mortgage foreclosure, equity receivership, or other  
8 proceeding to reorganize, conserve, or liquidate the  
9 plan, the sponsor, or property of such plan or spon-  
10 sor, and any other suit against any receiver, conser-  
11 vator, or trustee of the plan, the sponsor, or prop-  
12 erty of the plan or sponsor. Pending such adjudica-  
13 tion and upon the appointment by it of the Sec-  
14 retary as trustee, the court may stay any proceeding  
15 to enforce a lien against property of the plan or the  
16 sponsor or any other suit against the plan or the  
17 sponsor.

18 “(2) VENUE.—An action under this section  
19 may be brought in the judicial district where the  
20 sponsor or the plan administrator resides or does  
21 business or where any asset of the plan is situated.  
22 A district court in which such action is brought may  
23 issue process with respect to such action in any  
24 other judicial district.

1       “(g) PERSONNEL.—In accordance with regulations  
2 which shall be prescribed by the Secretary, the Secretary  
3 shall appoint, retain, and compensate accountants, actu-  
4 aries, and other professional service personnel as may be  
5 necessary in connection with the Secretary’s service as  
6 trustee under this section.

7       **“SEC. 811. STATE ASSESSMENT AUTHORITY.**

8       “(a) IN GENERAL.—Notwithstanding section 514, a  
9 State may impose by law a contribution tax on an associa-  
10 tion health plan described in section 806(a)(2), if the plan  
11 commenced operations in such State after the date of the  
12 enactment of this part.

13       “(b) CONTRIBUTION TAX.—For purposes of this sec-  
14 tion, the term ‘contribution tax’ imposed by a State on  
15 an association health plan means any tax imposed by such  
16 State if—

17               “(1) such tax is computed by applying a rate to  
18 the amount of premiums or contributions, with re-  
19 spect to individuals covered under the plan who are  
20 residents of such State, which are received by the  
21 plan from participating employers located in such  
22 State or from such individuals;

23               “(2) the rate of such tax does not exceed the  
24 rate of any tax imposed by such State on premiums  
25 or contributions received by insurers or health main-

1       tenance organizations for health insurance coverage  
2       offered in such State in connection with a group  
3       health plan;

4             “(3) such tax is otherwise nondiscriminatory;  
5       and

6             “(4) the amount of any such tax assessed on  
7       the plan is reduced by the amount of any tax or as-  
8       sessment otherwise imposed by the State on pre-  
9       miums, contributions, or both received by insurers or  
10      health maintenance organizations for health insur-  
11      ance coverage, aggregate excess/stop loss insurance  
12      (as defined in section 806(g)(1)), specific excess/stop  
13      loss insurance (as defined in section 806(g)(2)),  
14      other insurance related to the provision of medical  
15      care under the plan, or any combination thereof pro-  
16      vided by such insurers or health maintenance organi-  
17      zations in such State in connection with such plan.

18   **“SEC. 812. DEFINITIONS AND RULES OF CONSTRUCTION.**

19       “(a) DEFINITIONS.—For purposes of this part—

20             “(1) GROUP HEALTH PLAN.—The term ‘group  
21      health plan’ has the meaning provided in section  
22      733(a)(1) (after applying subsection (b) of this sec-  
23      tion).

24             “(2) MEDICAL CARE.—The term ‘medical care’  
25      has the meaning provided in section 733(a)(2).

1           “(3) HEALTH INSURANCE COVERAGE.—The  
2 term ‘health insurance coverage’ has the meaning  
3 provided in section 733(b)(1).

4           “(4) HEALTH INSURANCE ISSUER.—The term  
5 ‘health insurance issuer’ has the meaning provided  
6 in section 733(b)(2).

7           “(5) APPLICABLE AUTHORITY.—The term ‘ap-  
8 plicable authority’ means the Secretary, except that,  
9 in connection with any exercise of the Secretary’s  
10 authority regarding which the Secretary is required  
11 under section 506(d) to consult with a State, such  
12 term means the Secretary, in consultation with such  
13 State.

14           “(6) HEALTH STATUS-RELATED FACTOR.—The  
15 term ‘health status-related factor’ has the meaning  
16 provided in section 733(d)(2).

17           “(7) INDIVIDUAL MARKET.—

18           “(A) IN GENERAL.—The term ‘individual  
19 market’ means the market for health insurance  
20 coverage offered to individuals other than in  
21 connection with a group health plan.

22           “(B) TREATMENT OF VERY SMALL  
23 GROUPS.—

24           “(i) IN GENERAL.—Subject to clause  
25 (ii), such term includes coverage offered in

1 connection with a group health plan that  
2 has fewer than 2 participants as current  
3 employees or participants described in sec-  
4 tion 732(d)(3) on the first day of the plan  
5 year.

6 “(ii) STATE EXCEPTION.—Clause (i)  
7 shall not apply in the case of health insur-  
8 ance coverage offered in a State if such  
9 State regulates the coverage described in  
10 such clause in the same manner and to the  
11 same extent as coverage in the small group  
12 market (as defined in section 2791(e)(5) of  
13 the Public Health Service Act) is regulated  
14 by such State.

15 “(8) PARTICIPATING EMPLOYER.—The term  
16 ‘participating employer’ means, in connection with  
17 an association health plan, any employer, if any indi-  
18 vidual who is an employee of such employer, a part-  
19 ner in such employer, or a self-employed individual  
20 who is such employer (or any dependent, as defined  
21 under the terms of the plan, of such individual) is  
22 or was covered under such plan in connection with  
23 the status of such individual as such an employee,  
24 partner, or self-employed individual in relation to the  
25 plan.

1           “(9) APPLICABLE STATE AUTHORITY.—The  
2 term ‘applicable State authority’ means, with respect  
3 to a health insurance issuer in a State, the State in-  
4 surance commissioner or official or officials des-  
5 ignated by the State to enforce the requirements of  
6 title XXVII of the Public Health Service Act for the  
7 State involved with respect to such issuer.

8           “(10) QUALIFIED ACTUARY.—The term ‘quali-  
9 fied actuary’ means an individual who is a member  
10 of the American Academy of Actuaries.

11           “(11) AFFILIATED MEMBER.—The term ‘affili-  
12 ated member’ means, in connection with a sponsor—

13               “(A) a person who is otherwise eligible to  
14 be a member of the sponsor but who elects an  
15 affiliated status with the sponsor,

16               “(B) in the case of a sponsor with mem-  
17 bers which consist of associations, a person who  
18 is a member of any such association and elects  
19 an affiliated status with the sponsor, or

20               “(C) in the case of an association health  
21 plan in existence on the date of the enactment  
22 of this part, a person eligible to be a member  
23 of the sponsor or one of its member associa-  
24 tions.



1           “(12) LARGE EMPLOYER.—The term ‘large em-  
2           ployer’ means, in connection with a group health  
3           plan with respect to a plan year, an employer who  
4           employed an average of at least 51 employees on  
5           business days during the preceding calendar year  
6           and who employs at least 2 employees on the first  
7           day of the plan year.

8           “(13) SMALL EMPLOYER.—The term ‘small em-  
9           ployer’ means, in connection with a group health  
10          plan with respect to a plan year, an employer who  
11          is not a large employer.

12          “(b) RULES OF CONSTRUCTION.—

13                 “(1) EMPLOYERS AND EMPLOYEES.—For pur-  
14                 poses of determining whether a plan, fund, or pro-  
15                 gram is an employee welfare benefit plan which is an  
16                 association health plan, and for purposes of applying  
17                 this title in connection with such plan, fund, or pro-  
18                 gram so determined to be such an employee welfare  
19                 benefit plan—

20                         “(A) in the case of a partnership, the term  
21                         ‘employer’ (as defined in section 3(5)) includes  
22                         the partnership in relation to the partners, and  
23                         the term ‘employee’ (as defined in section 3(6))  
24                         includes any partner in relation to the partner-  
25                         ship; and

1           “(B) in the case of a self-employed indi-  
2           vidual, the term ‘employer’ (as defined in sec-  
3           tion 3(5)) and the term ‘employee’ (as defined  
4           in section 3(6)) shall include such individual.

5           “(2) PLANS, FUNDS, AND PROGRAMS TREATED  
6           AS EMPLOYEE WELFARE BENEFIT PLANS.—In the  
7           case of any plan, fund, or program which was estab-  
8           lished or is maintained for the purpose of providing  
9           medical care (through the purchase of insurance or  
10          otherwise) for employees (or their dependents) cov-  
11          ered thereunder and which demonstrates to the Sec-  
12          retary that all requirements for certification under  
13          this part would be met with respect to such plan,  
14          fund, or program if such plan, fund, or program  
15          were a group health plan, such plan, fund, or pro-  
16          gram shall be treated for purposes of this title as an  
17          employee welfare benefit plan on and after the date  
18          of such demonstration.”.

19          (2) CONFORMING AMENDMENTS TO PREEMP-  
20          TION RULES.—

21                 (A) Section 514(b)(6) of such Act (29  
22                 U.S.C. 1144(b)(6)) is amended by adding at  
23                 the end the following new subparagraph:

24                 “(E) The preceding subparagraphs of this paragraph  
25                 do not apply with respect to any State law in the case

1 of an association health plan which is certified under part  
2 8.”.

3 (B) Section 514 of such Act (29 U.S.C.  
4 1144) is amended—

5 (i) in subsection (b)(4), by striking  
6 “Subsection (a)” and inserting “Sub-  
7 sections (a) and (d)”;

8 (ii) in subsection (b)(5), by striking  
9 “subsection (a)” in subparagraph (A) and  
10 inserting “subsection (a) of this section  
11 and subsections (a)(2)(B) and (b) of sec-  
12 tion 805”, and by striking “subsection (a)”  
13 in subparagraph (B) and inserting “sub-  
14 section (a) of this section or subsection  
15 (a)(2)(B) or (b) of section 805”;

16 (iii) by redesignating subsection (d) as  
17 subsection (e); and

18 (iv) by inserting after subsection (c)  
19 the following new subsection:

20 “(d)(1) Except as provided in subsection (b)(4), the  
21 provisions of this title shall supersede any and all State  
22 laws insofar as they may now or hereafter preclude, or  
23 have the effect of precluding, a health insurance issuer  
24 from offering health insurance coverage in connection with

1 an association health plan which is certified under part  
2 8.

3 “(2) Except as provided in paragraphs (4) and (5)  
4 of subsection (b) of this section—

5 “(A) In any case in which health insurance cov-  
6 erage of any policy type is offered under an associa-  
7 tion health plan certified under part 8 to a partici-  
8 pating employer operating in such State, the provi-  
9 sions of this title shall supersede any and all laws  
10 of such State insofar as they may preclude a health  
11 insurance issuer from offering health insurance cov-  
12 erage of the same policy type to other employers op-  
13 erating in the State which are eligible for coverage  
14 under such association health plan, whether or not  
15 such other employers are participating employers in  
16 such plan.

17 “(B) In any case in which health insurance cov-  
18 erage of any policy type is offered in a State under  
19 an association health plan certified under part 8 and  
20 the filing, with the applicable State authority (as de-  
21 fined in section 812(a)(9)), of the policy form in  
22 connection with such policy type is approved by such  
23 State authority, the provisions of this title shall su-  
24 persede any and all laws of any other State in which  
25 health insurance coverage of such type is offered, in-

1       sofar as they may preclude, upon the filing in the  
2       same form and manner of such policy form with the  
3       applicable State authority in such other State, the  
4       approval of the filing in such other State.

5       “(3) Nothing in subsection (b)(6)(E) or the preceding  
6       provisions of this subsection shall be construed, with re-  
7       spect to health insurance issuers or health insurance cov-  
8       erage, to supersede or impair the law of any State—

9               “(A) providing solvency standards or similar  
10       standards regarding the adequacy of insurer capital,  
11       surplus, reserves, or contributions, or

12              “(B) relating to prompt payment of claims.

13       “(4) For additional provisions relating to association  
14       health plans, see subsections (a)(2)(B) and (b) of section  
15       805.

16       “(5) For purposes of this subsection, the term ‘asso-  
17       ciation health plan’ has the meaning provided in section  
18       801(a), and the terms ‘health insurance coverage’, ‘par-  
19       ticipating employer’, and ‘health insurance issuer’ have  
20       the meanings provided such terms in section 812, respec-  
21       tively.”.

22                       (C) Section 514(b)(6)(A) of such Act (29  
23       U.S.C. 1144(b)(6)(A)) is amended—

24                               (i) in clause (i)(II), by striking “and”  
25                               at the end;

1           (ii) in clause (ii), by inserting “and  
2           which does not provide medical care (with-  
3           in the meaning of section 733(a)(2)),”  
4           after “arrangement,” and by striking  
5           “title.” and inserting “title, and”; and

6           (iii) by adding at the end the fol-  
7           lowing new clause:

8           “(iii) subject to subparagraph (E), in the case  
9           of any other employee welfare benefit plan which is  
10          a multiple employer welfare arrangement and which  
11          provides medical care (within the meaning of section  
12          733(a)(2)), any law of any State which regulates in-  
13          surance may apply.”.

14          (D) Section 514(e) of such Act (as redesign-  
15          ated by subparagraph (B)(iii)) is amended—

16               (i) by striking “Nothing” and insert-  
17               ing “(1) Except as provided in paragraph  
18               (2), nothing”; and

19               (ii) by adding at the end the following  
20               new paragraph:

21           “(2) Nothing in any other provision of law enacted  
22          on or after the date of the enactment of part 8 shall be  
23          construed to alter, amend, modify, invalidate, impair, or  
24          supersede any provision of this title, except by specific  
25          cross-reference to the affected section.”.

1           (3) PLAN SPONSOR.—Section 3(16)(B) of such  
2 Act (29 U.S.C. 102(16)(B)) is amended by adding  
3 at the end the following new sentence: “Such term  
4 also includes a person serving as the sponsor of an  
5 association health plan under part 8.”.

6           (4) DISCLOSURE OF SOLVENCY PROTECTIONS  
7 RELATED TO SELF-INSURED AND FULLY INSURED  
8 OPTIONS UNDER ASSOCIATION HEALTH PLANS.—  
9 Section 102(b) of such Act (29 U.S.C. 102(b)) is  
10 amended by adding at the end the following: “An as-  
11 sociation health plan shall include in its summary  
12 plan description, in connection with each benefit op-  
13 tion, a description of the form of solvency or guar-  
14 antee fund protection secured pursuant to this Act  
15 or applicable State law, if any.”.

16           (5) SAVINGS CLAUSE.—Section 731(c) of such  
17 Act is amended by inserting “or part 8” after “this  
18 part”.

19           (6) REPORT TO THE CONGRESS REGARDING  
20 CERTIFICATION OF SELF-INSURED ASSOCIATION  
21 HEALTH PLANS.—Not later than January 1, 2013,  
22 the Secretary of Labor shall report to the Committee  
23 on Education and the Workforce of the House of  
24 Representatives and the Committee on Health, Edu-  
25 cation, Labor, and Pensions of the Senate the effect

1 association health plans have had, if any, on reduc-  
 2 ing the number of uninsured individuals.

3 (7) CLERICAL AMENDMENT.—The table of con-  
 4 tents in section 1 of the Employee Retirement In-  
 5 come Security Act of 1974 is amended by inserting  
 6 after the item relating to section 734 the following  
 7 new items:

“PART 8—RULES GOVERNING ASSOCIATION HEALTH PLANS

“801. Association health plans.

“802. Certification of association health plans.

“803. Requirements relating to sponsors and boards of trustees.

“804. Participation and coverage requirements.

“805. Other requirements relating to plan documents, contribution rates, and  
 benefit options.

“806. Maintenance of reserves and provisions for solvency for plans providing  
 health benefits in addition to health insurance coverage.

“807. Requirements for application and related requirements.

“808. Notice requirements for voluntary termination.

“809. Corrective actions and mandatory termination.

“810. Trusteeship by the Secretary of insolvent association health plans pro-  
 viding health benefits in addition to health insurance coverage.

“811. State assessment authority.

“812. Definitions and rules of construction.”.

8 (b) CLARIFICATION OF TREATMENT OF SINGLE EM-  
 9 PLOYER ARRANGEMENTS.—Section 3(40)(B) of the Em-  
 10 ployee Retirement Income Security Act of 1974 (29  
 11 U.S.C. 1002(40)(B)) is amended—

12 (1) in clause (i), by inserting after “control  
 13 group,” the following: “except that, in any case in  
 14 which the benefit referred to in subparagraph (A)  
 15 consists of medical care (as defined in section  
 16 812(a)(2)), two or more trades or businesses, wheth-  
 17 er or not incorporated, shall be deemed a single em-



1     ployer for any plan year of such plan, or any fiscal  
2     year of such other arrangement, if such trades or  
3     businesses are within the same control group during  
4     such year or at any time during the preceding 1-year  
5     period,”;

6             (2) in clause (iii), by striking “(iii) the deter-  
7     mination” and inserting the following:

8             “(iii)(I) in any case in which the benefit re-  
9     ferred to in subparagraph (A) consists of medical  
10    care (as defined in section 812(a)(2)), the deter-  
11    mination of whether a trade or business is under  
12    ‘common control’ with another trade or business  
13    shall be determined under regulations of the Sec-  
14    retary applying principles consistent and coextensive  
15    with the principles applied in determining whether  
16    employees of two or more trades or businesses are  
17    treated as employed by a single employer under sec-  
18    tion 4001(b), except that, for purposes of this para-  
19    graph, an interest of greater than 25 percent may  
20    not be required as the minimum interest necessary  
21    for common control, or

22             “(II) in any other case, the determination”;

23             (3) by redesignating clauses (iv) and (v) as  
24     clauses (v) and (vi), respectively; and

1           (4) by inserting after clause (iii) the following  
2 new clause:

3           “(iv) in any case in which the benefit referred  
4 to in subparagraph (A) consists of medical care (as  
5 defined in section 812(a)(2)), in determining, after  
6 the application of clause (i), whether benefits are  
7 provided to employees of two or more employers, the  
8 arrangement shall be treated as having only one par-  
9 ticipating employer if, after the application of clause  
10 (i), the number of individuals who are employees and  
11 former employees of any one participating employer  
12 and who are covered under the arrangement is  
13 greater than 75 percent of the aggregate number of  
14 all individuals who are employees or former employ-  
15 ees of participating employers and who are covered  
16 under the arrangement.”.

17           (c) ENFORCEMENT PROVISIONS RELATING TO ASSO-  
18 CIATION HEALTH PLANS.—

19           (1) CRIMINAL PENALTIES FOR CERTAIN WILL-  
20 FUL MISREPRESENTATIONS.—Section 501 of the  
21 Employee Retirement Income Security Act of 1974  
22 (29 U.S.C. 1131) is amended—

23                   (A) by inserting “(a)” after “Sec. 501.”;  
24                   and

1 (B) by adding at the end the following new  
2 subsection:

3 “(b) Any person who willfully falsely represents, to  
4 any employee, any employee’s beneficiary, any employer,  
5 the Secretary, or any State, a plan or other arrangement  
6 established or maintained for the purpose of offering or  
7 providing any benefit described in section 3(1) to employ-  
8 ees or their beneficiaries as—

9 “(1) being an association health plan which has  
10 been certified under part 8;

11 “(2) having been established or maintained  
12 under or pursuant to one or more collective bar-  
13 gaining agreements which are reached pursuant to  
14 collective bargaining described in section 8(d) of the  
15 National Labor Relations Act (29 U.S.C. 158(d)) or  
16 paragraph Fourth of section 2 of the Railway Labor  
17 Act (45 U.S.C. 152, paragraph Fourth) or which are  
18 reached pursuant to labor-management negotiations  
19 under similar provisions of State public employee re-  
20 lations laws; or

21 “(3) being a plan or arrangement described in  
22 section 3(40)(A)(i),  
23 shall, upon conviction, be imprisoned not more than 5  
24 years, be fined under title 18, United States Code, or  
25 both.”.

1           (2) CEASE ACTIVITIES ORDERS.—Section 502  
2 of such Act (29 U.S.C. 1132) is amended by adding  
3 at the end the following new subsection:

4           “(n) ASSOCIATION HEALTH PLAN CEASE AND DE-  
5 SIST ORDERS.—

6           “(1) IN GENERAL.—Subject to paragraph (2),  
7 upon application by the Secretary showing the oper-  
8 ation, promotion, or marketing of an association  
9 health plan (or similar arrangement providing bene-  
10 fits consisting of medical care (as defined in section  
11 733(a)(2))) that—

12           “(A) is not certified under part 8, is sub-  
13 ject under section 514(b)(6) to the insurance  
14 laws of any State in which the plan or arrange-  
15 ment offers or provides benefits, and is not li-  
16 censed, registered, or otherwise approved under  
17 the insurance laws of such State; or

18           “(B) is an association health plan certified  
19 under part 8 and is not operating in accordance  
20 with the requirements under part 8 for such  
21 certification,

22 a district court of the United States shall enter an  
23 order requiring that the plan or arrangement cease  
24 activities.

1           “(2) EXCEPTION.—Paragraph (1) shall not  
2 apply in the case of an association health plan or  
3 other arrangement if the plan or arrangement shows  
4 that—

5                   “(A) all benefits under it referred to in  
6 paragraph (1) consist of health insurance cov-  
7 erage; and

8                   “(B) with respect to each State in which  
9 the plan or arrangement offers or provides ben-  
10 efits, the plan or arrangement is operating in  
11 accordance with applicable State laws that are  
12 not superseded under section 514.

13           “(3) ADDITIONAL EQUITABLE RELIEF.—The  
14 court may grant such additional equitable relief, in-  
15 cluding any relief available under this title, as it  
16 deems necessary to protect the interests of the pub-  
17 lic and of persons having claims for benefits against  
18 the plan.”.

19           (3) RESPONSIBILITY FOR CLAIMS PROCE-  
20 DURE.—Section 503 of such Act (29 U.S.C. 1133)  
21 is amended by inserting “(a) IN GENERAL.—” be-  
22 fore “In accordance”, and by adding at the end the  
23 following new subsection:

24           “(b) ASSOCIATION HEALTH PLANS.—The terms of  
25 each association health plan which is or has been certified

1 under part 8 shall require the board of trustees or the  
2 named fiduciary (as applicable) to ensure that the require-  
3 ments of this section are met in connection with claims  
4 filed under the plan.”.

5 (d) COOPERATION BETWEEN FEDERAL AND STATE  
6 AUTHORITIES.—Section 506 of the Employee Retirement  
7 Income Security Act of 1974 (29 U.S.C. 1136) is amended  
8 by adding at the end the following new subsection:

9 “(d) CONSULTATION WITH STATES WITH RESPECT  
10 TO ASSOCIATION HEALTH PLANS.—

11 “(1) AGREEMENTS WITH STATES.—The Sec-  
12 retary shall consult with the State recognized under  
13 paragraph (2) with respect to an association health  
14 plan regarding the exercise of—

15 “(A) the Secretary’s authority under sec-  
16 tions 502 and 504 to enforce the requirements  
17 for certification under part 8; and

18 “(B) the Secretary’s authority to certify  
19 association health plans under part 8 in accord-  
20 ance with regulations of the Secretary applica-  
21 ble to certification under part 8.

22 “(2) RECOGNITION OF PRIMARY DOMICILE  
23 STATE.—In carrying out paragraph (1), the Sec-  
24 retary shall ensure that only one State will be recog-  
25 nized, with respect to any particular association

1 health plan, as the State with which consultation is  
 2 required. In carrying out this paragraph—

3 “(A) in the case of a plan which provides  
 4 health insurance coverage (as defined in section  
 5 812(a)(3)), such State shall be the State with  
 6 which filing and approval of a policy type of-  
 7 fered by the plan was initially obtained, and

8 “(B) in any other case, the Secretary shall  
 9 take into account the places of residence of the  
 10 participants and beneficiaries under the plan  
 11 and the State in which the trust is main-  
 12 tained.”.

13 (e) EFFECTIVE DATE AND TRANSITIONAL AND  
 14 OTHER RULES.—

15 (1) EFFECTIVE DATE.—The amendments made  
 16 by this section shall take effect 1 year after the date  
 17 of the enactment of this Act. The Secretary of Labor  
 18 shall first issue all regulations necessary to carry out  
 19 such amendments within 1 year after the date of the  
 20 enactment of this Act.

21 (2) TREATMENT OF CERTAIN EXISTING  
 22 HEALTH BENEFITS PROGRAMS.—

23 (A) IN GENERAL.—In any case in which,  
 24 as of the date of the enactment of this Act, an  
 25 arrangement is maintained in a State for the

1 purpose of providing benefits consisting of med-  
2 ical care for the employees and beneficiaries of  
3 its participating employers, at least 200 partici-  
4 pating employers make contributions to such  
5 arrangement, such arrangement has been in ex-  
6 istence for at least 10 years, and such arrange-  
7 ment is licensed under the laws of one or more  
8 States to provide such benefits to its partici-  
9 pating employers, upon the filing with the ap-  
10 plicable authority (as defined in section  
11 812(a)(5) of the Employee Retirement Income  
12 Security Act of 1974 (as amended by this sub-  
13 title)) by the arrangement of an application for  
14 certification of the arrangement under part 8 of  
15 subtitle B of title I of such Act—

16 (i) such arrangement shall be deemed  
17 to be a group health plan for purposes of  
18 title I of such Act;

19 (ii) the requirements of sections  
20 801(a) and 803(a) of the Employee Retire-  
21 ment Income Security Act of 1974 shall be  
22 deemed met with respect to such arrange-  
23 ment;

24 (iii) the requirements of section  
25 803(b) of such Act shall be deemed met, if



1 the arrangement is operated by a board of  
2 directors which—

3 (I) is elected by the participating  
4 employers, with each employer having  
5 one vote; and

6 (II) has complete fiscal control  
7 over the arrangement and which is re-  
8 sponsible for all operations of the ar-  
9 rangement;

10 (iv) the requirements of section  
11 804(a) of such Act shall be deemed met  
12 with respect to such arrangement; and

13 (v) the arrangement may be certified  
14 by any applicable authority with respect to  
15 its operations in any State only if it oper-  
16 ates in such State on the date of certifi-  
17 cation.

18 The provisions of this subparagraph shall cease  
19 to apply with respect to any such arrangement  
20 at such time after the date of the enactment of  
21 this Act as the applicable requirements of this  
22 subparagraph are not met with respect to such  
23 arrangement.

24 (B) DEFINITIONS.—For purposes of this  
25 paragraph, the terms “group health plan”,

1 “medical care”, and “participating employer”  
2 shall have the meanings provided in section 812  
3 of the Employee Retirement Income Security  
4 Act of 1974, except that the reference in para-  
5 graph (7) of such section to an “association  
6 health plan” shall be deemed a reference to an  
7 arrangement referred to in this paragraph.

8 **Subtitle C—Health Care Services**  
9 **Commission**

10 **PART 1—ESTABLISHMENT AND GENERAL DUTIES**

11 **SEC. 121. ESTABLISHMENT.**

12 (a) IN GENERAL.—There is hereby established a  
13 Health Care Services Commission (in this subtitle referred  
14 to as the “Commission”) to be composed of five commis-  
15 sioners (in this subtitle referred to as the “Commis-  
16 sioners”) to be appointed by the President by and with  
17 the advice and consent of the Senate. Not more than three  
18 of such commissioners shall be members of the same polit-  
19 ical party, and in making appointments members of dif-  
20 ferent political parties shall be appointed alternately as  
21 nearly as may be practicable. No commissioner shall en-  
22 gage in any other business, vocation, or employment than  
23 that of serving as commissioner. Each commissioner shall  
24 hold office for a term of five years and until his successor  
25 is appointed and has qualified, except that he shall not

1 so continue to serve beyond the expiration of the next ses-  
2 sion of Congress subsequent to the expiration of said fixed  
3 term of office, and except (1) any commissioner appointed  
4 to fill a vacancy occurring prior to the expiration of the  
5 term for which his predecessor was appointed shall be ap-  
6 pointed for the remainder of such term, and (2) the terms  
7 of office of the commissioners first taking office after the  
8 enactment of this subtitle shall expire as designated by  
9 the President at the time of nomination, one at the end  
10 of one year, one at the end of two years, one at the end  
11 of three years, one at the end of four years, and one at  
12 the end of five years, after the date of the enactment of  
13 this Act.

14 (b) PURPOSE.—The purpose of the Commission is to  
15 enhance the quality, appropriateness, and effectiveness of  
16 health care services, and access to such services, through  
17 the establishment of a broad base of scientific research  
18 and through the promotion of improvements in clinical  
19 practice and in the organization, financing, and delivery  
20 of health care services.

21 (c) APPOINTMENT OF CHAIRMAN.—The President  
22 shall, from among the Commissioners appointed under  
23 subsection (a), designate an individual to serve as the  
24 Chairman of the Commission.

1 **SEC. 122. GENERAL AUTHORITIES AND DUTIES.**

2 (a) IN GENERAL.—In carrying out section 121(b),  
3 the Commissioners shall conduct and support research,  
4 demonstration projects, evaluations, training, guideline de-  
5 velopment, and the dissemination of information, on  
6 health care services and on systems for the delivery of  
7 such services, including activities with respect to—

8 (1) the effectiveness, efficiency, and quality of  
9 health care services;

10 (2) subject to subsection (d), the outcomes of  
11 health care services and procedures;

12 (3) clinical practice, including primary care and  
13 practice-oriented research;

14 (4) health care technologies, facilities, and  
15 equipment;

16 (5) health care costs, productivity, and market  
17 forces;

18 (6) health promotion and disease prevention;

19 (7) health statistics and epidemiology; and

20 (8) medical liability.

21 (b) REQUIREMENTS WITH RESPECT TO RURAL  
22 AREAS AND UNDERSERVED POPULATIONS.—In carrying  
23 out subsection (a), the Commissioners shall undertake and  
24 support research, demonstration projects, and evaluations  
25 with respect to—

1 (1) the delivery of health care services in rural  
2 areas (including frontier areas); and

3 (2) the health of low-income groups, minority  
4 groups, and the elderly.

5 **SEC. 123. DISSEMINATION.**

6 (a) IN GENERAL.—The Commissioners shall—

7 (1) promptly publish, make available, and oth-  
8 erwise disseminate, in a form understandable and on  
9 as broad a basis as practicable so as to maximize its  
10 use, the results of research, demonstration projects,  
11 and evaluations conducted or supported under this  
12 subtitle and the guidelines, standards, and review  
13 criteria developed under this subtitle;

14 (2) promptly make available to the public data  
15 developed in such research, demonstration projects,  
16 and evaluations; and

17 (3) as appropriate, provide technical assistance  
18 to State and local government and health agencies  
19 and conduct liaison activities to such agencies to fos-  
20 ter dissemination.

21 (b) PROHIBITION AGAINST RESTRICTIONS.—Except  
22 as provided in subsection (c), the Commissioners may not  
23 restrict the publication or dissemination of data from, or  
24 the results of, projects conducted or supported under this  
25 subtitle.

1           (c) LIMITATION ON USE OF CERTAIN INFORMA-  
2 TION.—No information, if an establishment or person sup-  
3 plying the information or described in it is identifiable,  
4 obtained in the course of activities undertaken or sup-  
5 ported under this subtitle may be used for any purpose  
6 other than the purpose for which it was supplied unless  
7 such establishment or person has consented (as deter-  
8 mined under regulations of the Secretary) to its use for  
9 such other purpose. Such information may not be pub-  
10 lished or released in other form if the person who supplied  
11 the information or who is described in it is identifiable  
12 unless such person has consented (as determined under  
13 regulations of the Secretary) to its publication or release  
14 in other form.

15           (d) CERTAIN INTERAGENCY AGREEMENT.—The  
16 Commissioners and the Director of the National Library  
17 of Medicine shall enter into an agreement providing for  
18 the implementation of subsection (a)(1).

19                   **PART 2—FORUM FOR QUALITY AND**

20                   **EFFECTIVENESS IN HEALTH CARE**

21           **SEC. 131. ESTABLISHMENT OF OFFICE.**

22           There is established within the Commission an office  
23 to be known as the Office of the Forum for Quality and  
24 Effectiveness in Health Care. The office shall be headed

1 by a director (referred to in this subtitle as the “Direc-  
2 tor”), who shall be appointed by the Commissioners.

3 **SEC. 132. MEMBERSHIP.**

4 (a) IN GENERAL.—The Office of the Forum for Qual-  
5 ity and Effectiveness in Health Care shall be composed  
6 of 15 individuals nominated by private sector health care  
7 organizations and appointed by the Commission and shall  
8 include representation from at least the following:

9 (1) Health insurance industry.

10 (2) Health care provider groups.

11 (3) Non-profit organizations.

12 (4) Rural health organizations.

13 (b) TERMS.—

14 (1) IN GENERAL.—Except as provided in sub-  
15 paragraph (B), members of the Office of the Forum  
16 for Quality and Effectiveness in Health Care shall  
17 serve for a term of 5 years.

18 (2) STAGGERED ROTATION.—Of the members  
19 first appointed to the Office of the Forum for Qual-  
20 ity and Effectiveness in Health Care, the Commis-  
21 sion shall appoint 5 members to serve for a term of  
22 2 years, 5 members to serve for a term of 3 years,  
23 and 5 members to serve for a term of 4 years.

24 (c) TREATMENT OF OTHER EMPLOYMENT.—Each  
25 member of the Office of the Forum for Quality and Effec-

1 tiveness in Health Care shall serve the Office independ-  
2 ently from any other position of employment.

3 **SEC. 133. DUTIES.**

4 (a) ESTABLISHMENT OF FORUM PROGRAM.—The  
5 Commissioners, acting through the Director, shall estab-  
6 lish a program to be known as the Forum for Quality and  
7 Effectiveness in Health Care. For the purpose of pro-  
8 moting transparency in price, quality, appropriateness,  
9 and effectiveness of health care, the Director, using the  
10 process set forth in section 134, shall arrange for the de-  
11 velopment and periodic review and updating of standards  
12 of quality, performance measures, and medical review cri-  
13 teria through which health care providers and other appro-  
14 priate entities may assess or review the provision of health  
15 care and assure the quality of such care.

16 (b) CERTAIN REQUIREMENTS.—Guidelines, stand-  
17 ards, performance measures, and review criteria under  
18 subsection (a) shall—

19 (1) be based on the best available research and  
20 professional judgment regarding the effectiveness  
21 and appropriateness of health care services and pro-  
22 cedures; and

23 (2) be presented in formats appropriate for use  
24 by physicians, health care practitioners, providers,  
25 medical educators, and medical review organizations



1 and in formats appropriate for use by consumers of  
2 health care.

3 (c) AUTHORITY FOR CONTRACTS.—In carrying out  
4 this part, the Director may enter into contracts with pub-  
5 lic or nonprofit private entities.

6 (d) PUBLIC DISCLOSURE OF RECOMMENDATIONS.—  
7 For each fiscal year beginning with 2011, the Director  
8 shall make publicly available the following:

9 (1) quarterly reports for public comment that  
10 include proposed recommendations for guidelines,  
11 standards, performance measures, and review cri-  
12 teria under subsection (a) and any updates to such  
13 guidelines, standards, performance measures, and  
14 review criteria; and

15 (2) after consideration of such comments, a  
16 final report that contains final recommendations for  
17 such guidelines, standards, performance measures,  
18 review criteria, and updates.

19 (e) DATE CERTAIN FOR INITIAL GUIDELINES AND  
20 STANDARDS.—The Commissioners, by not later than Jan-  
21 uary 1, 2013, shall assure the development of an initial  
22 set of guidelines, standards, performance measures, and  
23 review criteria under subsection (a).

1 **SEC. 134. ADOPTION AND ENFORCEMENT OF GUIDELINES**  
2 **AND STANDARDS.**

3 (a) ADOPTION OF RECOMMENDATIONS OF FORUM  
4 FOR QUALITY AND EFFECTIVENESS IN HEALTH CARE.—  
5 For each fiscal year, the Commissioners shall adopt the  
6 recommendations made for such year in the final report  
7 under subsection (d)(2) of section 133 for guidelines,  
8 standards, performance measures, and review criteria de-  
9 scribed in subsection (a) of such section.

10 (b) ENFORCEMENT AUTHORITY.—The Commis-  
11 sioners, in consultation with the Secretary of Health and  
12 Human Services, have the authority to make recommenda-  
13 tions to the Secretary to enforce compliance of health care  
14 providers with the guidelines, standards, performance  
15 measures, and review criteria adopted under subsection  
16 (a). Such recommendations may include the following,  
17 with respect to a health care provider who is not in compli-  
18 ance with such guidelines, standards, measures, and cri-  
19 teria:

20 (1) Exclusion from participation in Federal  
21 health care programs (as defined in section  
22 1128B(f) of the Social Security Act).

23 (2) Imposition of a civil money penalty on such  
24 provider.

1 **SEC. 135. ADDITIONAL REQUIREMENTS.**

2 (a) PROGRAM AGENDA.—The Commissioners shall  
 3 provide for an agenda for the development of the guide-  
 4 lines, standards, performance measures, and review cri-  
 5 teria described in section 133(a), including with respect  
 6 to the standards, performance measures, and review cri-  
 7 teria, identifying specific aspects of health care for which  
 8 the standards, performance measures, and review criteria  
 9 are to be developed and those that are to be given priority  
 10 in the development of the standards, performance meas-  
 11 ures, and review criteria.

12 **PART 3—GENERAL PROVISIONS**

13 **SEC. 141. CERTAIN ADMINISTRATIVE AUTHORITIES.**

14 The Commissioners, in carrying out this subtitle, may  
 15 accept voluntary and uncompensated services.

16 **SEC. 142. FUNDING.**

17 For the purpose of carrying out this subtitle, there  
 18 are authorized to be appropriated such sums as may be  
 19 necessary for fiscal years 2011 through 2015.

20 **SEC. 143. DEFINITIONS.**

21 For purposes of this subtitle:

22 (1) The term “Commissioners” means the Com-  
 23 missioners of the Health Care Services Commission.

24 (2) The term “Commission” means the Health  
 25 Care Services Commission.



1 **SEC. 162. PURPOSE.**

2 It is the purpose of this part to provide for the estab-  
3 lishment of a nationwide health information technology  
4 network that—

5 (1) improves health care quality, reduces med-  
6 ical errors, increases the efficiency of care, and ad-  
7 vances the delivery of appropriate, evidence-based  
8 health care services;

9 (2) promotes wellness, disease prevention, and  
10 the management of chronic illnesses by increasing  
11 the availability and transparency of information re-  
12 lated to the health care needs of an individual;

13 (3) ensures that appropriate information nec-  
14 essary to make medical decisions is available in a us-  
15 able form at the time and in the location that the  
16 medical service involved is provided;

17 (4) produces greater value for health care ex-  
18 penditures by reducing health care costs that result  
19 from inefficiency, medical errors, inappropriate care,  
20 and incomplete information;

21 (5) promotes a more effective marketplace,  
22 greater competition, greater systems analysis, in-  
23 creased choice, enhanced quality, and improved out-  
24 comes in health care services;

25 (6) improves the coordination of information  
26 and the provision of such services through an effec-

1       tive infrastructure for the secure and authorized ex-  
2       change and use of health information; and

3               (7) ensures that the health information privacy,  
4       security, and confidentiality of individually identifi-  
5       able health information is protected.

6 **SEC. 163. DEFINITIONS.**

7       In this part:

8               (1) **ACCESS.**—The term “access” means, with  
9       respect to an electronic health record, entering infor-  
10      mation into such account as well as retrieving infor-  
11      mation from such account.

12              (2) **ACCOUNT.**—The term “account” means an  
13      electronic health record of an individual contained in  
14      an independent health record trust.

15              (3) **AFFIRMATIVE CONSENT.**—The term “af-  
16      firmative consent” means, with respect to an elec-  
17      tronic health record of an individual contained in an  
18      IHRT, express consent given by the individual for  
19      the use of such record in response to a clear and  
20      conspicuous request for such consent or at the indi-  
21      vidual’s own initiative.

22              (4) **AUTHORIZED EHR DATA USER.**—The term  
23      “authorized EHR data user” means, with respect to  
24      an electronic health record of an IHRT participant  
25      contained as part of an IHRT, any entity (other

1 than the participant) authorized (in the form of af-  
2 firmative consent) by the participant to access the  
3 electronic health record.

4 (5) CONFIDENTIALITY.—The term “confiden-  
5 tiality” means, with respect to individually identifi-  
6 able health information of an individual, the obliga-  
7 tion of those who receive such information to respect  
8 the health information privacy of the individual.

9 (6) ELECTRONIC HEALTH RECORD.—The term  
10 “electronic health record” means a longitudinal col-  
11 lection of information concerning a single individual,  
12 including medical records and personal health infor-  
13 mation, that is stored electronically.

14 (7) HEALTH INFORMATION PRIVACY.—The  
15 term “health information privacy” means, with re-  
16 spect to individually identifiable health information  
17 of an individual, the right of such individual to con-  
18 trol the acquisition, uses, or disclosures of such in-  
19 formation.

20 (8) HEALTH PLAN.—The term “health plan”  
21 means a group health plan (as defined in section  
22 2208(1) of the Public Health Service Act (42 U.S.C.  
23 300bb–8(1))) as well as a plan that offers health in-  
24 surance coverage in the individual market.

1           (9) HIPAA PRIVACY REGULATIONS.—The term  
2           “HIPAA privacy regulations” means the regulations  
3           promulgated under section 264(c) of the Health In-  
4           surance Portability and Accountability Act of 1996  
5           (42 U.S.C. 1320d–2 note).

6           (10) INDEPENDENT HEALTH RECORD TRUST;  
7           IHRT.—The terms “independent health record trust”  
8           and “IHRT” mean a legal arrangement under the  
9           administration of an IHRT operator that meets the  
10          requirements of this part with respect to electronic  
11          health records of individuals participating in the  
12          trust or IHRT.

13          (11) IHRT OPERATOR.—The term “IHRT op-  
14          erator” means, with respect to an IHRT, the organi-  
15          zation that is responsible for the administration and  
16          operation of the IHRT in accordance with this part.

17          (12) IHRT PARTICIPANT.—The term “IHRT  
18          participant” means, with respect to an IHRT, an in-  
19          dividual who has a participation agreement in effect  
20          with respect to the maintenance of the individual’s  
21          electronic health record by the IHRT.

22          (13) INDIVIDUALLY IDENTIFIABLE HEALTH IN-  
23          FORMATION.—The term “individually identifiable  
24          health information” has the meaning given such



1 term in section 1171(6) of the Social Security Act  
2 (42 U.S.C. 1320d(6)).

3 (14) SECURITY.—The term “security” means,  
4 with respect to individually identifiable health infor-  
5 mation of an individual, the physical, technological,  
6 or administrative safeguards or tools used to protect  
7 such information from unwarranted access or dislo-  
8 sure.

9 **SEC. 164. ESTABLISHMENT, CERTIFICATION, AND MEMBER-**  
10 **SHIP OF INDEPENDENT HEALTH RECORD**  
11 **TRUSTS.**

12 (a) ESTABLISHMENT.—Not later than one year after  
13 the date of the enactment of this Act, the Federal Trade  
14 Commission, in consultation with the National Committee  
15 on Vital and Health Statistics, shall prescribe standards  
16 for the establishment, certification, operation, and inter-  
17 operability of IHRTs to carry out the purposes described  
18 in section 162 in accordance with the provisions of this  
19 part.

20 (b) CERTIFICATION.—

21 (1) CERTIFICATION BY FTC.—The Federal  
22 Trade Commission shall provide for the certification  
23 of IHRTs. No IHRT may be certified unless the  
24 IHRT is determined to meet the standards for cer-  
25 tification established under subsection (a).

1           (2) DECERTIFICATION.—The Federal Trade  
2 Commission shall establish a process for the revoca-  
3 tion of certification of an IHRT under this section  
4 in the case that the IHRT violates the standards es-  
5 tablished under subsection (a).

6           (c) MEMBERSHIP.—

7           (1) IN GENERAL.—To be eligible to be a partic-  
8 ipant in an IHRT, an individual shall—

9                   (A) submit to the IHRT information as re-  
10                   quired by the IHRT to establish an electronic  
11                   health record with the IHRT; and

12                   (B) enter into a privacy protection agree-  
13                   ment described in section 166(b)(1) with the  
14                   IHRT.

15           The process to determine eligibility of an individual  
16           under this subsection shall allow for the establish-  
17           ment by such individual of an electronic health  
18           record as expeditiously as possible if such individual  
19           is determined so eligible.

20           (2) NO LIMITATION ON MEMBERSHIP.—Nothing  
21           in this subsection shall be construed to permit an  
22           IHRT to restrict membership, including on the basis  
23           of health condition.

1 **SEC. 165. DUTIES OF IHRT TO IHRT PARTICIPANTS.**

2 (a) **FIDUCIARY DUTY OF IHRT; PENALTIES FOR**  
3 **VIOLATIONS OF FIDUCIARY DUTY.—**

4 (1) **FIDUCIARY DUTY.**—With respect to the  
5 electronic health record of an IHRT participant  
6 maintained by an IHRT, the IHRT shall have a fi-  
7 duciary duty to act for the benefit and in the inter-  
8 ests of such participant and of the IHRT as a whole.  
9 Such duty shall include obtaining the affirmative  
10 consent of such participant prior to the release of in-  
11 formation in such participant’s electronic health  
12 record in accordance with the requirements of this  
13 part.

14 (2) **PENALTIES.**—If the IHRT knowingly or  
15 recklessly breaches the fiduciary duty described in  
16 paragraph (1), the IHRT shall be subject to the fol-  
17 lowing penalties:

18 (A) Loss of certification of the IHRT.

19 (B) A fine that is not in excess of \$50,000.

20 (C) A term of imprisonment for the indi-  
21 viduals involved of not more than 5 years.

22 (b) **ELECTRONIC HEALTH RECORD DEEMED TO BE**  
23 **HELD IN TRUST BY IHRT.**—With respect to an indi-  
24 vidual, an electronic health record maintained by an IHRT  
25 shall be deemed to be held in trust by the IHRT for the

1 benefit of the individual and the IHRT shall have no legal  
2 or equitable interest in such electronic health record.

3 **SEC. 166. AVAILABILITY AND USE OF INFORMATION FROM**  
4 **RECORDS IN IHRT CONSISTENT WITH PRI-**  
5 **VACY PROTECTIONS AND AGREEMENTS.**

6 (a) PROTECTED ELECTRONIC HEALTH RECORDS  
7 USE AND ACCESS.—

8 (1) GENERAL RIGHTS REGARDING USES OF IN-  
9 FORMATION.—

10 (A) IN GENERAL.—With respect to the  
11 electronic health record of an IHRT participant  
12 maintained by an IHRT, subject to paragraph  
13 (2)(C), primary uses and secondary uses (de-  
14 scribed in subparagraphs (B) and (C), respec-  
15 tively) of information within such record (other  
16 than by such participant) shall be permitted  
17 only upon the authorization of such use, prior  
18 to such use, by such participant.

19 (B) PRIMARY USES.—For purposes of sub-  
20 paragraph (A) and with respect to an electronic  
21 health record of an individual, a primary use is  
22 a use for purposes of the individual's self-care  
23 or care by health care professionals.

24 (C) SECONDARY USES.—For purposes of  
25 subparagraph (B) and with respect to an elec-

1           tronic health record of an individual, a sec-  
2           ondary use is any use not described in subpara-  
3           graph (B) and includes a use for purposes of  
4           public health research or other related activi-  
5           ties. Additional authorization is required for a  
6           secondary use extending beyond the original  
7           purpose of the secondary use authorized by the  
8           IHRT participant involved. Nothing in this  
9           paragraph shall be construed as requiring au-  
10          thorization for every secondary use that is with-  
11          in the authorized original purpose.

12           (2) RULES FOR PRIMARY USE OF RECORDS FOR  
13          HEALTH CARE PURPOSES.—With respect to the elec-  
14          tronic health record of an IHRT participant (or  
15          specified parts of such electronic health record)  
16          maintained by an IHRT standards for access to  
17          such record shall provide for the following:

18                   (A) ACCESS BY IHRT PARTICIPANTS TO  
19          THEIR ELECTRONIC HEALTH RECORDS.—

20                           (i) OWNERSHIP.—The participant  
21                           maintains ownership over the entire elec-  
22                           tronic health record (and all portions of  
23                           such record) and shall have the right to  
24                           electronically access and review the con-  
25                           tents of the entire record (and any portion

1 of such record) at any time, in accordance  
2 with this subparagraph.

3 (ii) ADDITION OF PERSONAL INFOR-  
4 MATION.—The participant may add per-  
5 sonal health information to the health  
6 record of that participant, except that such  
7 participant shall not alter information that  
8 is entered into the electronic health record  
9 by any authorized EHR data user. Such  
10 participant shall have the right to propose  
11 an amendment to information that is en-  
12 tered by an authorized EHR data user  
13 pursuant to standards prescribed by the  
14 Federal Trade Commission for purposes of  
15 amending such information.

16 (iii) IDENTIFICATION OF INFORMA-  
17 TION ENTERED BY PARTICIPANT.—Any ad-  
18 ditions or amendments made by the partic-  
19 ipant to the health record shall be identi-  
20 fied and disclosed within such record as  
21 being made by such participant.

22 (B) ACCESS BY ENTITIES OTHER THAN  
23 IHRT PARTICIPANT.—

24 (i) AUTHORIZED ACCESS ONLY.—Ex-  
25 cept as provided under subparagraph (C)

1 and paragraph (4), access to the electronic  
2 health record (or any portion of the  
3 record)—

4 (I) may be made only by author-  
5 ized EHR data users and only to such  
6 portions of the record as specified by  
7 the participant; and

8 (II) may be limited by the partic-  
9 ipant for purposes of entering infor-  
10 mation into such record, retrieving in-  
11 formation from such record, or both.

12 (ii) IDENTIFICATION OF ENTITY THAT  
13 ENTERS INFORMATION.—Any information  
14 that is added by an authorized EHR data  
15 user to the health record shall be identified  
16 and disclosed within such record as being  
17 made by such user.

18 (iii) SATISFACTION OF HIPAA PRIVACY  
19 REGULATIONS.—In the case of a record of  
20 a covered entity (as defined for purposes of  
21 HIPAA privacy regulations), with respect  
22 to an individual, if such individual is an  
23 IHRT participant with an independent  
24 health record trust and such covered entity  
25 is an authorized EHR data user, the re-

1           requirement under the HIPAA privacy regu-  
2           lations for such entity to provide the  
3           record to the participant shall be deemed  
4           met if such entity, without charge to the  
5           IHRT or the participant—

6                   (I) forwards to the trust an ap-  
7                   propriately formatted electronic copy  
8                   of the record (and updates to such  
9                   records) for inclusion in the electronic  
10                  health record of the participant main-  
11                  tained by the trust;

12                  (II) enters such record into the  
13                  electronic health record of the partici-  
14                  pant so maintained; or

15                  (III) otherwise makes such  
16                  record available for electronic access  
17                  by the IHRT or the individual in a  
18                  manner that permits such record to  
19                  be included in the account of the indi-  
20                  vidual contained in the IHRT.

21                  (iv) NOTIFICATION OF SENSITIVE IN-  
22                  FORMATION.—Any information, with re-  
23                  spect to the participant, that is sensitive  
24                  information, as specified by the Federal  
25                  Trade Commission, shall not be forwarded



1 or entered by an authorized EHR data  
2 user into the electronic health record of the  
3 participant maintained by the trust unless  
4 the user certifies that the participant has  
5 been notified of such information.

6 (C) DEEMED AUTHORIZATION FOR ACCESS  
7 FOR EMERGENCY HEALTH CARE.—

8 (i) FINDINGS.—Congress finds that—

9 (I) given the size and nature of  
10 visits to emergency departments in  
11 the United States, readily available  
12 health information could make the dif-  
13 ference between life and death; and

14 (II) because of the case mix and  
15 volume of patients treated, emergency  
16 departments are well positioned to  
17 provide information for public health  
18 surveillance, community risk assess-  
19 ment, research, education, training,  
20 quality improvement, and other uses.

21 (ii) USE OF INFORMATION.—With re-  
22 spect to the electronic health record of an  
23 IHRT participant (or specified parts of  
24 such electronic health record) maintained  
25 by an IHRT, the participant shall be

1 deemed as providing authorization (in the  
2 form of affirmative consent) for health  
3 care providers to access, in connection with  
4 providing emergency care services to the  
5 participant, a limited, authenticated infor-  
6 mation set concerning the participant for  
7 emergency response purposes, unless the  
8 participant specifies that such information  
9 set (or any portion of such information  
10 set) may not be so accessed. Such limited  
11 information set may include information—

12 (I) patient identification data, as  
13 determined appropriate by the partici-  
14 pant;

15 (II) provider identification that  
16 includes the use of unique provider  
17 identifiers;

18 (III) payment information;

19 (IV) information related to the  
20 individual's vitals, allergies, and medi-  
21 cation history;

22 (V) information related to exist-  
23 ing chronic problems and active clin-  
24 ical conditions of the participant; and

1 (VI) information concerning  
2 physical examinations, procedures, re-  
3 sults, and diagnosis data.

4 (3) RULES FOR SECONDARY USES OF RECORDS  
5 FOR RESEARCH AND OTHER PURPOSES.—

6 (A) IN GENERAL.—With respect to the  
7 electronic health record of an IHRT participant  
8 (or specified parts of such electronic health  
9 record) maintained by an IHRT, the IHRT  
10 may sell such record (or specified parts of such  
11 record) only if—

12 (i) the transfer is authorized by the  
13 participant pursuant to an agreement be-  
14 tween the participant and the IHRT and is  
15 in accordance with the privacy protection  
16 agreement described in subsection (b)(1)  
17 entered into between such participant and  
18 such IHRT;

19 (ii) such agreement includes param-  
20 eters with respect to the disclosure of in-  
21 formation involved and a process for the  
22 authorization of the further disclosure of  
23 information in such record;

1 (iii) the information involved is to be  
2 used for research or other activities only as  
3 provided for in the agreement;

4 (iv) the recipient of the information  
5 provides assurances that the information  
6 will not be further transferred or reused in  
7 violation of such agreement; and

8 (v) the transfer otherwise meets the  
9 requirements and standards prescribed by  
10 the Federal Trade Commission.

11 (B) TREATMENT OF PUBLIC HEALTH RE-  
12 PORTING.—Nothing in this paragraph shall be  
13 construed as prohibiting or limiting the use of  
14 health care information of an individual, includ-  
15 ing an individual who is an IHRT participant,  
16 for public health reporting (or other research)  
17 purposes prior to the inclusion of such informa-  
18 tion in an electronic health record maintained  
19 by an IHRT.

20 (4) LAW ENFORCEMENT CLARIFICATION.—  
21 Nothing in this part shall prevent an IHRT from  
22 disclosing information contained in an electronic  
23 health record maintained by the IHRT when re-  
24 quired for purposes of a lawful investigation or offi-  
25 cial proceeding inquiring into a violation of, or fail-

1 ure to comply with, any criminal or civil statute or  
2 any regulation, rule, or order issued pursuant to  
3 such a statute.

4 (5) RULE OF CONSTRUCTION.—Nothing in this  
5 section shall be construed to require a health care  
6 provider that does not utilize electronic methods or  
7 appropriate levels of health information technology  
8 on the date of the enactment of this Act to adopt  
9 such electronic methods or technology as a require-  
10 ment for participation or compliance under this part.

11 (b) PRIVACY PROTECTION AGREEMENT; TREATMENT  
12 OF STATE PRIVACY AND SECURITY LAWS.—

13 (1) PRIVACY PROTECTION AGREEMENT.—A pri-  
14 vacy protection agreement described in this sub-  
15 section is an agreement, with respect to an electronic  
16 health record of an IHRT participant to be main-  
17 tained by an independent health record trust, be-  
18 tween the participant and the trust—

19 (A) that is consistent with the standards  
20 described in subsection (a)(2);

21 (B) under which the participant specifies  
22 the portions of the record that may be accessed,  
23 under what circumstances such portions may be  
24 accessed, any authorizations for indicated au-  
25 thorized EHR data users to access information

1 contained in the record, and the purposes for  
2 which the information (or portions of the infor-  
3 mation) in the record may be used;

4 (C) which provides a process for the au-  
5 thorization of the transfer of information con-  
6 tained in the record to a third party, including  
7 for the sale of such information for purposes of  
8 research, by an authorized EHR data user and  
9 reuse of such information by such third party,  
10 including a provision requiring that such trans-  
11 fer and reuse is not in violation of any privacy  
12 or transfer restrictions placed by the partici-  
13 pant on the independent health record of such  
14 participant; and

15 (D) under which the trust provides assur-  
16 ances that the trust will not transfer, disclose,  
17 or provide access to the record (or any portion  
18 of the record) in violation of the parameters es-  
19 tablished in the agreement or to any person or  
20 entity who has not agreed to use and transfer  
21 such record (or portion of such record) in ac-  
22 cordance with such agreement.

23 (2) TREATMENT OF STATE LAWS.—

24 (A) IN GENERAL.—Except as provided  
25 under subparagraph (B), the provisions of a

1 privacy protection agreement entered into be-  
2 tween an IHRT and an IHRT participant shall  
3 preempt any provision of State law (or any  
4 State regulation) relating to the privacy and  
5 confidentiality of individually identifiable health  
6 information or to the security of such health in-  
7 formation.

8 (B) EXCEPTION FOR PRIVILEGED INFOR-  
9 MATION.—The provisions of a privacy protec-  
10 tion agreement shall not preempt any provision  
11 of State law (or any State regulation) that rec-  
12 ognizes privileged communications between phy-  
13 sicians, health care practitioners, and patients  
14 of such physicians or health care practitioners,  
15 respectively.

16 (C) STATE DEFINED.—For purposes of  
17 this section, the term “State” has the meaning  
18 given such term when used in title XI of the  
19 Social Security Act, as provided under section  
20 1101(a) of such Act (42 U.S.C. 1301(a)).

21 **SEC. 167. VOLUNTARY NATURE OF TRUST PARTICIPATION**  
22 **AND INFORMATION SHARING.**

23 (a) IN GENERAL.—Participation in an independent  
24 health record trust, or authorizing access to information  
25 from such a trust, is voluntary. No employer, health insur-

1 ance issuer, group health plan, health care provider, or  
2 other person may require, as a condition of employment,  
3 issuance of a health insurance policy, coverage under a  
4 group health plan, the provision of health care services,  
5 payment for such services, or otherwise, that an individual  
6 participate in, or authorize access to information from, an  
7 independent health record trust.

8 (b) ENFORCEMENT.—The penalties provided for in  
9 subsection (a) of section 1177 of the Social Security Act  
10 (42 U.S.C. 1320d–6) shall apply to a violation of sub-  
11 section (a) in the same manner as such penalties apply  
12 to a person in violation of subsection (a) of such section.

13 **SEC. 168. FINANCING OF ACTIVITIES.**

14 (a) IN GENERAL.—Except as provided in subsection  
15 (b), an IHRT may generate revenue to pay for the oper-  
16 ations of the IHRT through—

17 (1) charging IHRT participants account fees  
18 for use of the trust;

19 (2) charging authorized EHR data users for ac-  
20 cessing electronic health records maintained in the  
21 trust;

22 (3) the sale of information contained in the  
23 trust (as provided for in section 166(a)(3)(A)); and

24 (4) any other activity determined appropriate  
25 by the Federal Trade Commission.



1           (b) PROHIBITION AGAINST ACCESS FEES FOR  
2 HEALTH CARE PROVIDERS.—For purposes of providing  
3 incentives to health care providers to access information  
4 maintained in an IHRT, as authorized by the IHRT par-  
5 ticipants involved, the IHRT may not charge a fee for  
6 services specified by the IHRT. Such services shall include  
7 the transmittal of information from a health care provider  
8 to be included in an independent electronic health record  
9 maintained by the IHRT (or permitting such provider to  
10 input such information into the record), including the  
11 transmission of or access to information described in sec-  
12 tion 166(a)(2)(C)(ii) by appropriate emergency respond-  
13 ers.

14           (c) REQUIRED DISCLOSURES.—The sources and  
15 amounts of revenue derived under subsection (a) for the  
16 operations of an IHRT shall be fully disclosed to each  
17 IHRT participant of such IHRT and to the public.

18           (d) TREATMENT OF INCOME.—For purposes of the  
19 Internal Revenue Code of 1986, any revenue described in  
20 subsection (a) shall not be included in gross income of any  
21 IHRT, IHRT participant, or authorized EHR data user.

22 **SEC. 169. REGULATORY OVERSIGHT.**

23           (a) IN GENERAL.—In carrying out this part, the Fed-  
24 eral Trade Commission shall promulgate regulations for  
25 independent health record trusts.

1 (b) ESTABLISHMENT OF INTERAGENCY STEERING  
2 COMMITTEE.—

3 (1) IN GENERAL.—The Secretary of Health and  
4 Human Services shall establish an Interagency  
5 Steering Committee in accordance with this sub-  
6 section.

7 (2) CHAIRPERSON.—The Secretary of Health  
8 and Human Services shall serve as the chairperson  
9 of the Interagency Steering Committee.

10 (3) MEMBERSHIP.—The members of the Inter-  
11 agency Steering Committee shall consist of the At-  
12 torney General, the Chairperson of the Federal  
13 Trade Commission, the Chairperson for the National  
14 Committee for Vital and Health Statistics, a rep-  
15 resentative of the Federal Reserve, and other Fed-  
16 eral officials determined appropriate by the Sec-  
17 retary of Health and Human Services.

18 (4) DUTIES.—The Interagency Steering Com-  
19 mittee shall coordinate the implementation of this  
20 part, including the implementation of policies de-  
21 scribed in subsection (d) based upon the rec-  
22 ommendations provided under such subsection, and  
23 regulations promulgated under this part.

24 (c) FEDERAL ADVISORY COMMITTEE.—

1           (1) IN GENERAL.—The National Committee for  
2 Vital and Health Statistics shall serve as an advisory  
3 committee for the IHRTs. The membership of such  
4 advisory committee shall include a representative  
5 from the Federal Trade Commission and the chair-  
6 person of the Interagency Steering Committee. Not  
7 less than 60 percent of such membership shall con-  
8 sist of representatives of nongovernment entities, at  
9 least one of whom shall be a representative from an  
10 organization representing health care consumers.

11           (2) DUTIES.—The National Committee for  
12 Vital and Health Statistics shall issue periodic re-  
13 ports and review policies concerning IHRTs based  
14 on each of the following factors:

15                   (A) Privacy and security policies.

16                   (B) Economic progress.

17                   (C) Interoperability standards.

18           (d) POLICIES RECOMMENDED BY FEDERAL TRADE  
19 COMMISSION.—The Federal Trade Commission, in con-  
20 sultation with the National Committee for Vital and  
21 Health Statistics, shall recommend policies to—

22                   (1) provide assistance to encourage the growth  
23 of independent health record trusts;

24                   (2) track economic progress as it pertains to  
25 operators of independent health records trusts and

1 individuals receiving nontaxable income with respect  
2 to accounts;

3 (3) conduct public education activities regarding  
4 the creation and usage of the independent health  
5 records trusts;

6 (4) establish standards for the interoperability  
7 of health information technology to ensure that in-  
8 formation contained in such record may be shared  
9 between the trust involved, the participant, and au-  
10 thorized EHR data users, including for the stand-  
11 ardized collection and transmission of individual  
12 health records (or portions of such records) to au-  
13 thorized EHR data users through a common inter-  
14 face and for the portability of such records among  
15 independent health record trusts; and

16 (5) carry out any other activities determined  
17 appropriate by the Federal Trade Commission.

18 (e) REGULATIONS PROMULGATED BY FEDERAL  
19 TRADE COMMISSION.—The Federal Trade Commission  
20 shall promulgate regulations based on, at a minimum, the  
21 following factors:

22 (1) Requiring that an IHRT participant, who  
23 has an electronic health record that is maintained by  
24 an IHRT, be notified of a security breach with re-

1 spect to such record, and any corrective action taken  
2 on behalf of the participant.

3 (2) Requiring that information sent to, or re-  
4 ceived from, an IHRT that has been designated as  
5 high-risk should be authenticated through the use of  
6 methods such as the periodic changing of passwords,  
7 the use of biometrics, the use of tokens or other  
8 technology as determined appropriate by the council.

9 (3) Requiring a delay in releasing sensitive  
10 health care test results and other similar informa-  
11 tion to patients directly in order to give physicians  
12 time to contact the patient.

13 (4) Recommendations for entities operating  
14 IHRTs, including requiring analysis of the potential  
15 risk of health transaction security breeches based on  
16 set criteria.

17 (5) The conduct of audits of IHRTs to ensure  
18 that they are in compliance with the requirements  
19 and standards established under this part.

20 (6) Disclosure to IHRT participants of the  
21 means by which such trusts are financed, including  
22 revenue from the sale of patient data.

23 (7) Prevention of certification of an entity seek-  
24 ing independent health record trust certification  
25 based on—

1 (A) the potential for conflicts between the  
2 interests of such entity and the security of the  
3 health information involved; and

4 (B) the involvement of the entity in any  
5 activity that is contrary to the best interests of  
6 a patient.

7 (8) Prevention of the use of revenue sources  
8 that are contrary to a patient's interests.

9 (9) Public disclosure of audits in a manner  
10 similar to financial audits required for publicly trad-  
11 ed stock companies.

12 (10) Requiring notification to a participating  
13 entity that the information contained in such record  
14 may not be representative of the complete or accu-  
15 rate electronic health record of such account holder.

16 (f) COMPLIANCE REPORT.—Not later than 1 year  
17 after the date of the enactment of this Act, and annually  
18 thereafter, the Commission shall submit to the Committee  
19 on Health, Education, Labor, and Pensions and the Com-  
20 mittee on Finance of the Senate and the Committee on  
21 Energy and Commerce and the Committee on Ways and  
22 Means of the House of Representatives, a report on com-  
23 pliance by and progress of independent health record  
24 trusts with this part. Such report shall describe the fol-  
25 lowing:

1           (1) The number of complaints submitted about  
2 independent health record trusts, which shall be di-  
3 vided by complaints related to security breaches, and  
4 complaints not related to security breaches, and may  
5 include other categories as the Interagency Steering  
6 Committee established under subsection (b) deter-  
7 mines appropriate.

8           (2) The number of enforcement actions under-  
9 taken by the Commission against independent health  
10 record trusts in response to complaints under para-  
11 graph (1), which shall be divided by enforcement ac-  
12 tions related to security breaches and enforcement  
13 actions not related to security breaches and may in-  
14 clude other categories as the Interagency Steering  
15 Committee established under subsection (b) deter-  
16 mines appropriate.

17           (3) The economic progress of the individual  
18 owner or institution operator as achieved through  
19 independent health record trust usage and existing  
20 barriers to such usage.

21           (4) The progress in security auditing as pro-  
22 vided for by the Interagency Steering Committee  
23 council under subsection (b).

24           (5) The other core responsibilities of the Com-  
25 mission as described in subsection (a).

1 (g) INTERAGENCY MEMORANDUM OF UNDER-  
 2 STANDING.—The Interagency Steering Committee shall  
 3 ensure, through the execution of an interagency memo-  
 4 randum of understanding, that—

5 (1) regulations, rulings, and interpretations  
 6 issued by Federal officials relating to the same mat-  
 7 ter over which 2 or more such officials have respon-  
 8 sibility under this part are administered so as to  
 9 have the same effect at all times; and

10 (2) the memorandum provides for the coordina-  
 11 tion of policies related to enforcing the same require-  
 12 ments through such officials in order to have coordi-  
 13 nated enforcement strategy that avoids duplication  
 14 of enforcement efforts and assigns priorities in en-  
 15 forcement.

## 16 **TITLE II—MEDICAID AND SCHIP** 17 **REFORM**

### 18 **SEC. 201. MEDICAID REFORM.**

19 (a) IN GENERAL.—Title XIX of the Social Security  
 20 Act is amended by adding at the end the following new  
 21 section:

22 “REVISION OF MEDICAID PROGRAM

23 “SEC. 1943. (a) ELECTION OF BLOCK GRANT OR IM-  
 24 PLEMENTATION OF REFUNDABLE TAX CREDIT FOR MED-  
 25 ICAID POPULATION FOR ACUTE CARE SERVICES AND  
 26 MAINTENANCE OF EFFORT SPENDING.—



1           “(1) IN GENERAL.—Each State shall elect—

2                   “(A) to receive block grant funding under  
3 subsection (b); or

4                   “(B) to have Medicaid-eligible individuals  
5 eligible to receive refundable tax credits under  
6 section 36B of the Internal Revenue Code of  
7 1986 and to provide for maintenance of effort  
8 described in subsection (c).

9           If a State fails to make such an election, the State  
10 shall be treated as making the election described in  
11 subparagraph (A).

12           “(2) LIMITATIONS ON ELECTION.—If a State  
13 makes the election described in paragraph (1)(B),  
14 the State may not change such election. A State that  
15 makes the election described in paragraph (1)(A)  
16 may change such election with notice to the Sec-  
17 retary.

18           “(3) EFFECTIVE DATE; IMPLEMENTATION.—  
19 This subsection shall first take effect as of January  
20 1, 2011. For items and services furnished on or  
21 after such date, no payment shall be made under  
22 section 1903 to any State.

23           “(b) BLOCK GRANT PAYMENT FOR ACUTE CARE  
24 SERVICES.—

1           “(1) IN GENERAL.—The block grant payment  
2 amount under this subsection for a State—

3           “(A) for 2011 is equal to the total Federal  
4 payments under this title and title XXI to the  
5 State for calendar quarters in 2010 (other than  
6 payments for medical assistance for long-term  
7 care services, as defined for purposes of sub-  
8 section (e)), increased by the inflation adjust-  
9 ment factor for the year (described in para-  
10 graph (2)); or

11           “(B) for a subsequent year is, subject to  
12 subsection (d), equal to the block grant pay-  
13 ment amount under this subsection for the  
14 State for the previous year increased by the in-  
15 flation adjustment factor for the year (described  
16 in paragraph (2)) and a population growth fac-  
17 tor (described in paragraph (3)).

18           “(2) INFLATION ADJUSTMENT FACTOR.—The  
19 inflation adjustment factor in this paragraph for a  
20 year is equal to the average of the projected annual  
21 rate of increase in the consumer price index for  
22 urban consumers (all items; U.S. city average) and  
23 the percentage increase in the MEI (as defined in  
24 section 1842(i)(3)) for the year.

1           “(3) POPULATION GROWTH FACTOR.—The Sec-  
2           retary shall determine and apply a population  
3           growth factor based on the percentage increase in  
4           the population included in the computation of Na-  
5           tional Health Expenditures from the calendar year  
6           in which the previous fiscal year ends to the cal-  
7           endar year in which the fiscal year involved ends, as  
8           most recently published by the Secretary, but ad-  
9           justed among the States so as to reflect differences  
10          in relative population growth rates among such  
11          States.

12          “(4) LIMITATION.—Payment under this sub-  
13          section shall only be available to States for costs of  
14          health care and related administrative costs.

15          “(5) NO REQUIREMENT FOR STATE MATCHING  
16          PAYMENT.—Nothing in this subsection shall be con-  
17          strued as requiring a State to make any matching  
18          payments as a condition of receiving payment under  
19          this subsection.

20          “(6) PERIODICITY OF PAYMENTS.—The Sec-  
21          retary shall provide for making payments under this  
22          subsection on a quarterly or other appropriate basis.

23          “(c) MAINTENANCE OF EFFORT (MOE) REQUIRE-  
24          MENT.—

1           “(1) IN GENERAL.—The maintenance of effort  
2 requirement under this subsection for a State for a  
3 year is to provide for payment in the MOE amount  
4 specified in paragraph (2) for the year for purposes  
5 described in, and in accordance with, paragraph (3).

6           “(2) MOE AMOUNT.—The MOE amount speci-  
7 fied in this paragraph for a State—

8           “(A) for 2011 is equal to the amount of  
9 expenditures of the State under this title and  
10 title XXI for calendar quarters in 2009, not  
11 taking into account Federal payments made to  
12 the State under the respective title and not tak-  
13 ing into account such payments that are attrib-  
14 utable to medical assistance for long-term care  
15 services (as defined for purposes of subsection  
16 (e)), increased by the inflation adjustment fac-  
17 tor described in subsection (b)(2) for 2010 and  
18 further increased by such factor for 2011; or

19           “(B) for a subsequent year is equal to the  
20 MOE amount specified in this paragraph for  
21 the State for the previous year increased by the  
22 inflation adjustment factor described in sub-  
23 section (b)(2) for such subsequent year.

24           “(3) APPLICATION TOWARD SPENDING.—Pay-  
25 ments by a State shall be used for the following pur-

1 poses, with priority given to such purposes in the  
2 following order:

3 “(A) To develop an auto-enrollment pro-  
4 gram for previously eligible Medicaid recipients.

5 “(B) To assist individuals in low-income  
6 families (as defined by the State) and high-cost  
7 individuals and families (for those for whom in-  
8 surance is unavailable or very expensive because  
9 of their health status) to purchase qualifying  
10 health insurance. Eligible expenses shall include  
11 direct assistance with premiums and cost-shar-  
12 ing.

13 “(C) For purposes of funding qualified  
14 high risk pools (as defined in section 2744(e)(2)  
15 of the Public Health Service Act).

16 “(D) For establishment and funding of re-  
17 insurance mechanisms.

18 “(E) For establishment and maintenance  
19 of networks designed to improve consumer in-  
20 formation, transparency in price and quality  
21 data, and reduction in transaction costs associ-  
22 ated with enrolling individuals in health insur-  
23 ance coverage.

24 “(d) PHASE-OUT OF DSH PAYMENTS.—

1           “(1) IN GENERAL.—Notwithstanding any other  
2 provision of law, the amount of DSH allotment oth-  
3 erwise provided under section 1923(f) for each State  
4 for a fiscal year shall be reduced—

5                   “(A) by 25 percent for fiscal year 2011;

6                   “(B) by 50 percent for fiscal year 2012;

7                   “(C) by 75 percent for fiscal year 2013;

8           and

9                   “(D) entirely for fiscal year 2014 and each  
10 succeeding fiscal year.

11           “(2) ADJUSTMENT IN BLOCK GRANT.—The  
12 amount of any block grant for a State under sub-  
13 section (b) for a fiscal year shall be adjusted to re-  
14 flect the amount of reductions in DSH allotment  
15 under paragraph (1) for the State and the fiscal  
16 year.

17           “(e) BLOCK GRANT FOR LONG-TERM CARE SERV-  
18 ICES.—

19           “(1) IN GENERAL.—Notwithstanding any other  
20 provision of this title, instead of any payment under  
21 this title to a State for long-term care services (as  
22 defined by the Secretary), the Secretary shall pay to  
23 a State the long-term care block grant amount speci-  
24 fied in paragraph (2).

1           “(2) LONG-TERM CARE BLOCK GRANT  
2 AMOUNT.—The long-term block grant payment  
3 amount under this paragraph for a State—

4           “(A) for 2011 is equal to the total Federal  
5 payments under this title to the State for cal-  
6 endar quarters in 2010 for long-term care serv-  
7 ices, as defined for purposes of paragraph (1),  
8 increased by the inflation adjustment factor for  
9 the year (described in subsection (b)(2)); or

10           “(B) for a subsequent year is equal to the  
11 long-term care block grant payment amount  
12 under this paragraph for the State for the pre-  
13 vious year increased by such inflation adjust-  
14 ment factor for the year.

15           “(3) APPLICATION OF PROVISIONS.—The provi-  
16 sions of paragraphs (3), (4), and (5) of subsection  
17 (b) shall apply to payments under this subsection.

18           “(4) EFFECTIVE DATE; IMPLEMENTATION.—  
19 This subsection shall first take effect as of January  
20 1, 2011. For long-term care items and services fur-  
21 nished on or after such date, no payment shall be  
22 made under section 1903 to any State.”.

1 **SEC. 202. SCHIP REFORM.**

2 (a) IN GENERAL.—Effective for items and services  
3 furnished on or after January 1, 2011, title XXI of the  
4 Social Security Act is repealed.

5 (b) CONSTRUCTION.—Subsection (a) shall not affect  
6 payment for items and services furnished before such date.

7 **TITLE III—MEDICARE REFORM**  
8 **Subtitle A—New Medicare Program**

9 **SEC. 301. BENEFIT CHANGES.**

10 Title XVIII of the Social Security Act is amended by  
11 inserting after section 1809 the following new section:

12 “PROGRAM FOR NEW MEDICARE BENEFICIARIES

13 BEGINNING IN 2019

14 “SEC. 1809A. (a) APPLICATION.—

15 “(1) IN GENERAL.—Notwithstanding any other  
16 provision of law (including sections 226 and 226A),  
17 the provisions of this section shall apply to individ-  
18 uals (other than individuals entitled to benefits only  
19 because of the application of section 1881(d)) who  
20 first become entitled to benefits under part A, or  
21 whose coverage period under part B begins, on or  
22 after January 1, 2019.

23 “(2) NO IMPACT ON FICA/SECA TAX REVE-  
24 NUES.—Nothing in this section shall be construed as  
25 affecting revenues through the payment of hospital



1 insurance taxes under sections 1401(b), 3101(b),  
2 and 3111(b) of the Internal Revenue Code of 1986.

3 “(3) NO IMPACT ON OTHER BENEFICIARIES.—

4 “(A) IN GENERAL.—This section shall not  
5 apply to individuals not described in paragraph  
6 (1).

7 “(B) NO IMPACT ON COMPUTATION OF  
8 MEDICARE PREMIUMS FOR OLDER MEDICARE  
9 BENEFICIARIES.—Premiums under parts A, B,  
10 and D shall be computed for individuals not de-  
11 scribed in paragraph (1) based on the average  
12 costs that the Secretary estimates would have  
13 been applicable if this section did not apply.

14 “(b) ALTERNATIVE BENEFITS.—

15 “(1) IN GENERAL.—An individual described in  
16 subsection (a)(1) is only entitled to benefits under  
17 this title in accordance with this section. In the case  
18 of such an individual who has qualified health insur-  
19 ance coverage, the individual is entitled under this  
20 section—

21 “(A) to an income-related payment under  
22 subsection (c); and

23 “(B) in the case of a low-income individual  
24 (as defined in paragraph (3) of subsection (d)),  
25 to a contribution to a medical savings account

1 of the individual in the amount specified in  
2 such subsection.

3 “(2) ALTERNATIVE PREMIUM OBLIGATIONS.—

4 An individual described in subsection (a)(1)—

5 “(A) is not responsible for payment of any  
6 premium otherwise applicable under part B or  
7 D; but

8 “(B) is responsible for payment of the pre-  
9 mium for qualified health insurance coverage  
10 referred to in paragraph (1) and may apply the  
11 income-related payment under subsection (c) to-  
12 ward such premium.

13 “(3) QUALIFIED HEALTH INSURANCE COV-  
14 ERAGE DEFINED.—In this subsection, the term  
15 ‘qualified health insurance coverage’ means health  
16 benefits coverage, whether under a group health  
17 plan, health insurance coverage or otherwise, but  
18 does not include coverage under a health plan if sub-  
19 stantially all of its coverage is coverage described in  
20 section 223(c)(1)(B) of the Internal Revenue Code  
21 of 1986.

22 “(c) INCOME-RELATED PAYMENT.—

23 “(1) IN GENERAL.—The amount of the income-  
24 related payment under this subsection for an indi-  
25 vidual for a year is equal to—

1           “(A) the annual amount specified for the  
2 year in paragraph (2);

3           “(B) subject to reduction under paragraph  
4 (3) (relating to higher income individuals);

5           “(C) further subject to adjustment under  
6 paragraph (4); and

7           “(D) subject to pro-ration under para-  
8 graph (5).

9           “(2) ANNUAL AMOUNT.—

10           “(A) IN GENERAL.—The annual amount  
11 specified in this paragraph—

12           “(i) for 2019 is \$9,500; and

13           “(ii) for any subsequent year is the  
14 annual amount specified in this paragraph  
15 for the preceding year increased by the an-  
16 nual inflation adjustment described in sub-  
17 paragraph (B) for such subsequent year.

18           Any amount computed under clause (ii) that is  
19 not a multiple of \$12 shall be rounded to the  
20 nearest multiple of \$12.

21           “(B) ANNUAL INFLATION ADJUSTMENT.—

22           The annual inflation adjustment under this  
23 subparagraph for a year is equal to the average  
24 of—

1           “(i) the annual rate of increase in the  
2           consumer price index for urban consumers  
3           (all items; U.S. city average) for the year,  
4           as projected by the Secretary in consulta-  
5           tion with the Bureau of Labor Statistics  
6           before the beginning of the year; and

7           “(ii) the annual rate of increase in the  
8           medical care component of the consumer  
9           price index for all urban consumers (U.S.  
10          city average) for the year, as projected by  
11          the Secretary in consultation with the Bu-  
12          reau of Labor Statistics before the begin-  
13          ning of the year.

14          “(3) REDUCTION FOR HIGHER-INCOME INDIVID-  
15          UALS.—

16               “(A) IN GENERAL.—In the case of an indi-  
17               vidual whose modified adjusted gross income  
18               exceeds the threshold amount specified in para-  
19               graph (2) of section 1839(i), as adjusted under  
20               paragraph (5) of such section, the annual  
21               amount under paragraph (2) shall be reduced  
22               by the adjustment percentage specified in sub-  
23               paragraph (B).

1           “(B) ADJUSTMENT PERCENTAGE.—In the  
2 case of an individual for whom the applicable  
3 percentage specified in section 1839(i)(3)(C)—

4           “(i) is less than 80 percent, the ad-  
5 justment percentage under this subpara-  
6 graph shall be 50 percent; or

7           “(ii) is equal to 80 percent, the ad-  
8 justment percentage under this subpara-  
9 graph shall be 70 percent.

10           “(C) APPLICATION OF CERTAIN PROVI-  
11 SIONS.—The provisions of paragraphs (4)  
12 through (6) of section 1839(i) shall apply under  
13 this paragraph in the same manner as they  
14 apply for purposes of such section.

15           “(4) RISK, GEOGRAPHIC AREA, AND OTHER AD-  
16 JUSTMENTS.—

17           “(A) RISK ADJUSTMENT.—The payment  
18 amount under this subsection for an individual  
19 shall be adjusted, using a methodology specified  
20 by the Secretary, in a manner that takes into  
21 account the relative risk factors (such as those  
22 described in section 1853(a)(1)(C)(i)) associ-  
23 ated with such individual. Such adjustment  
24 shall be made in such a manner as not to  
25 change the total amount of payments made

1 under this subsection as a result of such adjust-  
2 ment.

3 “(B) PARTIAL GEOGRAPHIC AREA ADJUST-  
4 MENT.—Such payment amount for an indi-  
5 vidual also shall be adjusted, using a method-  
6 ology specified by the Secretary, in a manner  
7 that takes into account the relative differences  
8 in area health care costs for the area in which  
9 the individual resides compared to other areas.  
10 Such adjustment shall be made in such a man-  
11 ner as not to change the total amount of pay-  
12 ments made under this subsection as a result of  
13 such adjustment. The Secretary shall provide  
14 for a decrease over time in the adjustment  
15 made under this subparagraph.

16 “(C) CERTAIN PART A BUY-IN INDIVID-  
17 UALS.—Such payment amount for an individual  
18 who is not eligible for benefits under part A  
19 pursuant to section 226 or 226A shall be ad-  
20 justed by such proportion or amount as the  
21 Secretary determines appropriate to take into  
22 account premiums that would otherwise be pay-  
23 able under section 1818 or 1818A for benefits  
24 under part A.

1           “(5) PRO-RATIO FOR PARTIAL YEAR OF ELIGI-  
2           BILITY.—In the case of an individual whose entitle-  
3           ment under this section is for less than an entire  
4           year, the payment amount under this subsection  
5           shall be pro-rated to reflect the portion of the year  
6           included in such entitlement.

7           “(6) PAYMENT ON PERIODIC BASIS.—The Sec-  
8           retary shall provide for the payment under this sub-  
9           section on an appropriate monthly or other periodic  
10          basis.

11          “(d) CONTRIBUTION TO A MEDICAL SAVINGS AC-  
12          COUNT (MSA) FOR LOW-INCOME INDIVIDUALS.—

13           “(1) IN GENERAL.—The amount of the con-  
14           tribution under subsection (b)(1)(B) to a medical  
15           savings account of a low-income individual is  
16           equal—

17           “(A) in the case of an individual described  
18           in clause (i) or (ii) of paragraph (4)(A), to the  
19           full MSA contribution amount (as defined in  
20           paragraph (2)); or

21           “(B) in the case of any other individual, to  
22           75 percent of the full MSA contribution  
23           amount.

24           “(2) FULL MSA CONTRIBUTION AMOUNT.—For  
25           purposes of this subsection, the term ‘full MSA con-

1       tribution amount’ means, for a year for an indi-  
2       vidual, an amount to be equivalent to the full  
3       amount of the average deductible of a high-deduct-  
4       ible health plan (as defined in section 223(c)(2) of  
5       the Internal Revenue Code of 1986) as determined  
6       by the Secretary.

7               “(3) NO MEDICAID COVERAGE FOR MEDICARE-  
8       COVERED SERVICES.—

9               “(A) IN GENERAL.—In the case of an indi-  
10       vidual who is eligible to be provided a contribu-  
11       tion to a medical savings account under this  
12       subsection, the individual is not entitled to any  
13       payment under a State plan under title XIX  
14       with respect to any benefits relating to items  
15       and services for which coverage is provided  
16       under this title.

17              “(B) CONSTRUCTION.—Subparagraph (A)  
18       shall not affect the continued provision of med-  
19       ical assistance under title XIX for items and  
20       services, such as dental, vision, or long-term  
21       care facility services, for which benefits are not  
22       provided under this title regardless of medical  
23       necessity.

24              “(4) PERIODIC PAYMENT.—The Secretary shall  
25       provide for the contribution into medical savings ac-



1 counts of amounts under this subsection on an ap-  
2 propriate monthly or other periodic basis.

3 “(5) LOW-INCOME INDIVIDUAL DEFINED.—

4 “(A) IN GENERAL.—For purposes of this  
5 section, the term ‘low-income individual’ means  
6 an individual described in subsection (a)(1)—

7 “(i) who meets the requirement of  
8 section 1936(c)(6)(A)(ii) (relating to a full-  
9 benefit dual eligible individual);

10 “(ii) whose income (as determined  
11 under section 1612 for purposes of the  
12 supplemental security income program, ex-  
13 cept as provided in subparagraph (B))  
14 does not exceed 100 percent of the official  
15 income poverty line (referred to in section  
16 1905(p)(1)) applicable to a family of the  
17 size involved; or

18 “(iii) whose income (as so determined)  
19 exceeds 100 percent, but does not exceed  
20 150 percent, of such official income pov-  
21 erty line applicable to a family of the size  
22 involved.

23 “(B) APPLICATION OF SPECIAL RULE RE-  
24 GARDING APPLICATION OF SOCIAL SECURITY IN-  
25 CREASES.—The provisions of subparagraph (D)

1 of section 1905(p)(2) shall apply to determina-  
2 tions of income under subparagraph (A) in the  
3 same manner they apply under such section.

4 “(C) DETERMINATION PROCESS.—The  
5 Secretary shall specify a process for the deter-  
6 mination of whether individuals are low-income  
7 individuals.”.

8 **SEC. 302. UNIFIED MEDICARE TRUST FUND.**

9 (a) IN GENERAL.—The Federal Hospital Insurance  
10 Trust Fund (established under section 1817 of the Social  
11 Security Act) and the Federal Supplementary Medical In-  
12 surance Trust Fund (established under section 1841 of  
13 such Act) are hereby consolidated into a unified Medicare  
14 trust fund. Such trust fund shall have separate accounts  
15 for parts A, B, and D of such title and shall be adminis-  
16 tered by the same board of trustees that administers the  
17 current Trust Funds.

18 (b) CONSTRUCTION.—Nothing in this section shall be  
19 construed as affecting the actual transfer of funds or com-  
20 putations of amounts of premiums under any part of the  
21 Medicare program.

22 (c) SOLVENCY.—The Medicare trustee shall establish  
23 a measure of program solvency for the Medicare program  
24 of total outlays as a measure of gross domestic product.

1       **Subtitle B—Changes in Current**  
2                   **Medicare Program**

3       **SEC. 311. INCOME-RELATED REDUCTION IN PART D PRE-**  
4                   **MIUM SUBSIDY.**

5           (a) INCOME-RELATED REDUCTION IN PART D PRE-  
6 MIUM SUBSIDY.—

7           (1) IN GENERAL.—Section 1860D–13(a) of the  
8 Social Security Act (42 U.S.C. 1395w–113(a)) is  
9 amended by adding at the end the following new  
10 paragraph:

11           “(7) REDUCTION IN PREMIUM SUBSIDY BASED  
12 ON INCOME.—

13           “(A) IN GENERAL.—In the case of an indi-  
14 vidual whose modified adjusted gross income  
15 exceeds the threshold amount applicable under  
16 paragraph (2) of section 1839(i) (including ap-  
17 plication of paragraph (5) of such section) for  
18 the calendar year, the monthly amount of the  
19 premium subsidy applicable to the premium  
20 under this section for a month after December  
21 2009 shall be reduced (and the monthly bene-  
22 ficiary premium shall be increased) by the  
23 monthly adjustment amount specified in sub-  
24 paragraph (B).

1           “(B) MONTHLY ADJUSTMENT AMOUNT.—

2           The monthly adjustment amount specified in  
3           this subparagraph for an individual for a month  
4           in a year is equal to the product of—

5                   “(i) the quotient obtained by divid-  
6           ing—

7                           “(I) the applicable percentage de-  
8                           termined under paragraph (3)(C) of  
9                           section 1839(i) (including application  
10                          of paragraph (5) of such section) for  
11                          the individual for the calendar year  
12                          reduced by 25.5 percent; by

13                           “(II) 25.5 percent; and

14                          “(ii) the base beneficiary premium (as  
15                          computed under paragraph (2)).

16           “(C) MODIFIED ADJUSTED GROSS IN-  
17           COME.—For purposes of this paragraph, the  
18           term ‘modified adjusted gross income’ has the  
19           meaning given such term in subparagraph (A)  
20           of section 1839(i)(4), determined for the tax-  
21           able year applicable under subparagraphs (B)  
22           and (C) of such section.

23           “(D) DETERMINATION BY COMMISSIONER  
24           OF SOCIAL SECURITY.—The Commissioner of  
25           Social Security shall make any determination

1 necessary to carry out the income-related reduc-  
2 tion in premium subsidy under this paragraph.

3 “(E) PROCEDURES TO ASSURE CORRECT  
4 INCOME-RELATED REDUCTION IN PREMIUM  
5 SUBSIDY.—

6 “(i) DISCLOSURE OF BASE BENE-  
7 FICIARY PREMIUM.—Not later than Sep-  
8 tember 15 of each year beginning with  
9 2009, the Secretary shall disclose to the  
10 Commissioner of Social Security the  
11 amount of the base beneficiary premium  
12 (as computed under paragraph (2)) for the  
13 purpose of carrying out the income-related  
14 reduction in premium subsidy under this  
15 paragraph with respect to the following  
16 year.

17 “(ii) ADDITIONAL DISCLOSURE.—Not  
18 later than October 15 of each year begin-  
19 ning with 2009, the Secretary shall dis-  
20 close to the Commissioner of Social Secu-  
21 rity the following information for the pur-  
22 pose of carrying out the income-related re-  
23 duction in premium subsidy under this  
24 paragraph with respect to the following  
25 year:

1           “(I) The modified adjusted gross  
2           income threshold applicable under  
3           paragraph (2) of section 1839(i) (in-  
4           cluding application of paragraph (5)  
5           of such section).

6           “(II) The applicable percentage  
7           determined under paragraph (3)(C) of  
8           section 1839(i) (including application  
9           of paragraph (5) of such section).

10          “(III) The monthly adjustment  
11          amount specified in subparagraph  
12          (B).

13          “(IV) Any other information the  
14          Commissioner of Social Security de-  
15          termines necessary to carry out the  
16          income-related reduction in premium  
17          subsidy under this paragraph.

18          “(F) RULE OF CONSTRUCTION.—The for-  
19          mula used to determine the monthly adjustment  
20          amount specified under subparagraph (B) shall  
21          only be used for the purpose of determining  
22          such monthly adjustment amount under such  
23          subparagraph.”.

1           (2) COLLECTION OF MONTHLY ADJUSTMENT  
2 AMOUNT.—Section 1860D–13(c) of the Social Secu-  
3 rity Act (42 U.S.C. 1395w–113(c)) is amended—

4           (A) in paragraph (1), by striking “(2) and  
5 (3)” and inserting “(2), (3), and (4)”; and

6           (B) by adding at the end the following new  
7 paragraph:

8           “(4) COLLECTION OF MONTHLY ADJUSTMENT  
9 AMOUNT.—

10           “(A) IN GENERAL.—Notwithstanding any  
11 other provision of this subsection or section  
12 1854(d)(2), subject to subparagraph (B), the  
13 amount of the income-related reduction in pre-  
14 mium subsidy for an individual for a month (as  
15 determined under subsection (a)(7)) shall be  
16 paid through withholding from benefit pay-  
17 ments in the manner provided under section  
18 1840.

19           “(B) AGREEMENTS.—In the case where  
20 the monthly benefit payments of an individual  
21 that are withheld under subparagraph (A) are  
22 insufficient to pay the amount described in such  
23 subparagraph, the Commissioner of Social Se-  
24 curity shall enter into agreements with the Sec-  
25 retary, the Director of the Office of Personnel

1 Management, and the Railroad Retirement  
2 Board as necessary in order to allow other  
3 agencies to collect the amount described in sub-  
4 paragraph (A) that was not withheld under  
5 such subparagraph.”.

6 (b) CONFORMING AMENDMENTS.—

7 (1) MEDICARE.—Part D of title XVIII of the  
8 Social Security Act (42 U.S.C. 1395w–101 et seq.)  
9 is amended—

10 (A) in section 1860D–13(a)(1)—

11 (i) by redesignating subparagraph (F)  
12 as subparagraph (G);

13 (ii) in subparagraph (G), as redesign-  
14 nated by clause (i), by striking “(D) and  
15 (E)” and inserting “(D), (E), and (F)”;  
16 and

17 (iii) by inserting after subparagraph  
18 (E) the following new subparagraph:

19 “(F) INCREASE BASED ON INCOME.—The  
20 monthly beneficiary premium shall be increased  
21 pursuant to paragraph (7).”; and

22 (B) in section 1860D–15(a)(1)(B), by  
23 striking “paragraph (1)(B)” and inserting  
24 “paragraphs (1)(B) and (1)(F)”.



1           (2) INTERNAL REVENUE CODE.—Section  
2           6103(l)(20) of the Internal Revenue Code of 1986  
3           (relating to disclosure of return information to carry  
4           out Medicare part B premium subsidy adjustment)  
5           is amended—

6                   (A) in the heading, by striking “PART B  
7                   PREMIUM SUBSIDY ADJUSTMENT” and inserting  
8                   “PARTS B AND D PREMIUM SUBSIDY ADJUST-  
9                   MENTS”;

10                   (B) in subparagraph (A)—

11                           (i) in the matter preceding clause (i),  
12                           by inserting “or 1860D–13(a)(7)” after  
13                           “1839(i)”; and

14                           (ii) in clause (vii), by inserting after  
15                           “subsection (i) of such section” the fol-  
16                           lowing: “or under section 1860D–13(a)(7)  
17                           of such Act”; and

18                   (C) in subparagraph (B)—

19                           (i) by inserting “or such section  
20                           1860D–13(a)(7)” before the period at the  
21                           end;

22                           (ii) as amended by clause (i), by in-  
23                           serting “or for the purpose of resolving tax  
24                           payer appeals with respect to any such pre-

1 mium adjustment” before the period at the  
2 end; and

3 (iii) by adding at the end the fol-  
4 lowing new sentence: “Officers, employees,  
5 and contractors of the Social Security Ad-  
6 ministration may disclose such return in-  
7 formation to officers, employees, and con-  
8 tractors of the Department of Health and  
9 Human Services, the Office of Personnel  
10 Management, the Railroad Retirement  
11 Board, the Department of Justice, and the  
12 courts of the United States to the extent  
13 necessary to carry out the purposes de-  
14 scribed in the preceding sentence.”; and

15 (D) by adding at the end the following new  
16 subparagraph:

17 “(C) TIMING OF DISCLOSURE.—Return in-  
18 formation shall be disclosed to officers, employ-  
19 ees, and contractors of the Social Security Ad-  
20 ministration under subparagraph (A) not later  
21 than the date that is 90 days prior to the date  
22 on which the taxpayer first becomes entitled to  
23 benefits under part A of title XVIII of the So-  
24 cial Security Act or eligible to enroll for benefits  
25 under part B of such title.”.

1 **SEC. 312. REDUCTION IN HOSPITAL MARKET BASKET IN-**  
2 **CREASES.**

3 Notwithstanding any other provision of law:

4 (1) **OUTPATIENT HOSPITAL SERVICES.**—For  
5 2010 and each succeeding year, the OPD fee sched-  
6 ule increase factor otherwise computed under section  
7 1833(t)(3)(C)(iv) of the Social Security Act (42  
8 U.S.C. 1395l(t)(3)(C)(iv)) shall be reduced by .4  
9 percentage points.

10 (2) **INPATIENT HOSPITAL SERVICES.**—For fis-  
11 cal year 2010 and each succeeding fiscal year, the  
12 applicable percentage increase otherwise computed  
13 under clauses (i) and (ii) of section 1886(b)(3)(B) of  
14 such Act (42 U.S.C. 1395ww(b)(3)(B)) shall be re-  
15 duced by .4 percentage points.

16 **SEC. 313. ELIMINATION OF INDEXING OF INCOME THRESH-**  
17 **OLDS FOR PART B INCOME-RELATED PRE-**  
18 **MIUMS.**

19 (a) **IN GENERAL.**—Section 1839(i) of the Social Se-  
20 curity Act (42 U.S.C. 1395r(i)) is amended by striking  
21 paragraph (5).

22 (b) **EFFECTIVE DATE.**—The amendment made by  
23 subsection (a) shall apply to premiums for years beginning  
24 with 2010.

1       **TITLE IV—SOCIAL SECURITY**  
 2                                   **REFORM**

3   **SEC. 401. SHORT TITLE AND TABLE OF CONTENTS OF**  
 4                                   **TITLE.**

5       (a) **SHORT TITLE OF TITLE.**—This title may be cited  
 6 as the “Social Security Personal Savings Guarantee and  
 7 Prosperity Act of 2009”.

8       (b) **TABLE OF CONTENTS OF TITLE.**—The table of  
 9 contents for this title is as follows:

TITLE IV—SOCIAL SECURITY REFORM

Sec. 401. Short title and table of contents of title.

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1 **SEC. 402. ESTABLISHMENT OF PERSONAL SOCIAL SECUR-**  
2 **RITY SAVINGS PROGRAM.**

3 (a) IN GENERAL.—Title II of the Social Security Act  
4 is amended—

5 (1) by inserting before section 201 the fol-  
6 lowing:

7 **“PART A—INSURANCE BENEFITS”;**

8 and

9 (2) by adding at the end the following new part:

10 **“PART B—PERSONAL SOCIAL SECURITY SAVINGS**  
11 **PROGRAM**

12 **“SEC. 251. DEFINITIONS.**

13 “For purposes of this part—

14 “(1) PARTICIPATING INDIVIDUAL.—The term  
15 ‘participating individual’ has the meaning provided  
16 in section 253(a).

17 “(2) BOARD.—The term ‘Board’ means the  
18 Personal Social Security Savings Board established  
19 under section 260.

20 “(3) EXECUTIVE DIRECTOR.—The term ‘Execu-  
21 tive Director’ means the Executive Director ap-  
22 pointed under section 261.

23 “(4) PERSONAL SOCIAL SECURITY SAVINGS AC-  
24 COUNT.—The term ‘personal social security savings  
25 account’ means an account established under section  
26 254(a).

1           “(5) PERSONAL SOCIAL SECURITY SAVINGS AN-  
 2           NUITY.—The term ‘personal social security savings  
 3           annuity’ means an annuity approved by the Board  
 4           under section 258(b)(3).

5           “(6) SAVINGS FUND.—The term ‘Savings Fund’  
 6           means the Social Security Personal Savings Fund  
 7           established under section 252.

8           “(7) TIER I INVESTMENT FUND.—The term  
 9           ‘Tier I Investment Fund’ means the trust fund cre-  
 10          ated under section 255.

11          “(8) TIER II INVESTMENT FUND.—The term  
 12          ‘Tier II Investment Fund’ means the trust fund cre-  
 13          ated under section 256.

14          “(9) TIER III INVESTMENT OPTION.—The term  
 15          ‘Tier III Investment Option’ means an investment  
 16          option which is—

17                 “(A) offered by an eligible entity certified  
 18                 by the Board under section 257(b); and

19                 “(B) approved by the Board under section  
 20                 257(c).

21   **“SEC. 252. SOCIAL SECURITY PERSONAL SAVINGS FUND.**

22          “(a) ESTABLISHMENT OF SAVINGS FUND.—

23                 “(1) ESTABLISHMENT.—There is established in  
 24                 the Treasury of the United States a trust fund to

1 be known as the ‘Social Security Personal Savings  
2 Fund’.

3 “(2) AMOUNTS IN FUND.—The Savings Fund  
4 shall consist of—

5 “(A) all amounts transferred to or depos-  
6 ited into the Savings Fund under subsection  
7 (b), increased by the total net earnings from in-  
8 vestments of sums in the Savings Fund attrib-  
9 utable to such transferred or deposited  
10 amounts, and reduced by the total net losses  
11 from investments of such sums, and

12 “(B) the reserves held in the Annuity Re-  
13 serves Account established under section  
14 258(b)(3), increased by the total net earnings  
15 from investments of such reserves, and reduced  
16 by the total net losses from investments of such  
17 reserves.

18 “(3) TRUSTEES.—The Board shall serve as  
19 trustees of the Savings Fund.

20 “(4) BUDGET AUTHORITY; APPROPRIATION.—  
21 This part constitutes budget authority in advance of  
22 appropriations Acts and represents the obligation of  
23 the Board to provide for the payment of amounts  
24 provided under this part. The amounts held in the

1 Savings Fund are appropriated and shall remain  
2 available without fiscal year limitation.

3 “(b) DEPOSITS INTO FUND.—

4 “(1) IN GENERAL.—During each calendar year,  
5 the Secretary of the Treasury shall deposit into the  
6 Savings Fund, from amounts held in the Federal  
7 Old-Age and Survivors Insurance Trust Fund, a  
8 total amount equal, in the aggregate, to 100 percent  
9 of the redirected social security contribution for such  
10 calendar year of each individual who is a partici-  
11 pating individual for such calendar year.

12 “(2) TRANSFERS BASED ON ESTIMATES.—

13 “(A) IN GENERAL.—The amounts depos-  
14 ited pursuant to paragraph (1) shall be trans-  
15 ferred in at least weekly payments from the  
16 Federal Old-Age and Survivors Insurance Trust  
17 Fund to the Savings Fund.

18 “(B) DETERMINATION OF AMOUNTS.—The  
19 amounts transferred under subparagraph (A)  
20 shall be determined on the basis of estimates,  
21 made by the Commissioner of Social Security  
22 and certified to the Secretary of the Treasury,  
23 of the wages paid to, and self-employment in-  
24 come derived by, participating individuals.  
25 Proper adjustments shall be made in amounts



1           subsequently transferred to the extent prior es-  
2           timates were in excess of or were less than ac-  
3           tual amounts transferred.

4           “(3) REDIRECTED SOCIAL SECURITY CONTRIBU-  
5           TIONS.—For purposes of paragraph (1)—

6                   “(A) IN GENERAL.—The term ‘redirected  
7           social security contributions’ means, with re-  
8           spect to an individual for a calendar year, the  
9           sum of—

10                           “(i) the product derived by multi-  
11                           plying—

12                                   “(I) the sum of the total wages  
13                                   paid to, and self-employment income  
14                                   derived by, such individual during  
15                                   such calendar year, to the extent such  
16                                   total wages and self-employment in-  
17                                   come do not exceed the base amount  
18                                   for such calendar year; by

19   “(II) the applicable base percent-  
20   age for the calendar year; and

21   “(ii) the product derived by multi-  
22   plying—

23   “(I) the sum of the total wages  
24   paid to, and self-employment income  
25   derived by, such individual during

1 such calendar year, to the extent such  
2 total wages and self-employment in-  
3 come exceed the base amount (taking  
4 into account the limits imposed by the  
5 contribution and benefit base under  
6 section 230); by

7 “(II) the applicable supplemental  
8 percentage for the calendar year.

9 “(B) BASE AMOUNT.—For purposes of  
10 subparagraph (A)—

11 “(i) INITIAL BASE AMOUNT.—The  
12 base amount for calendar year 2012 is  
13 \$10,000.

14 “(ii) ADJUSTMENTS TO BASE  
15 AMOUNT.—The base amount for any cal-  
16 endar year after 2012 is the product de-  
17 rived by multiplying \$10,000 by a frac-  
18 tion—

19 “(I) the numerator of which is  
20 the national average wage index (as  
21 defined in section 209(k)) for the first  
22 of the 2 preceding calendar years; and

23 “(II) the denominator of which is  
24 the national average wage index (as so  
25 defined) for 2010.

1           “(C) APPLICABLE BASE PERCENTAGE.—

2           For purposes of subparagraph (A), the applica-

3           ble base percentage for a calendar year is—

4                   “(i) for calendar years after 2011 and  
5                   before 2022, 2 percent;

6                   “(ii) for calendar years after 2021  
7                   and before 2032, 4 percent;

8                   “(iii) for calendar years after 2031  
9                   and before 2042, 6 percent; and

10                   “(iv) for calendar years after 2041, 8  
11                   percent.

12           “(D) APPLICABLE SUPPLEMENTAL PER-  
13           CENTAGE.—For purposes of subparagraph (A),  
14           the applicable supplemental percentage for a  
15           calendar year is—

16                   “(i) for calendar years after 2011 and  
17                   before 2022, 1 percent;

18                   “(ii) for calendar years after 2021  
19                   and before 2032, 2 percent;

20                   “(iii) for calendar years after 2031  
21                   and before 2042, 3 percent; and

22                   “(iv) for calendar years after 2041, 4  
23                   percent.

1       “(c) AVAILABILITY.—The sums in the Savings Fund  
2 are appropriated and shall remain available without fiscal  
3 year limitation—

4           “(1) to invest funds in the Tier I Investment  
5 Fund of the Savings Fund and the Tier II Invest-  
6 ment Fund of the Savings Fund under sections 255  
7 and 256, respectively;

8           “(2) to transfer into Tier III Investment Op-  
9 tions under section 257;

10          “(3) to make distributions in accordance with  
11 section 258; and

12          “(4) to pay the administrative expenses of the  
13 Board in accordance with subsection (e).

14       “(d) LIMITATIONS ON USE OF FUNDS.—

15           “(1) IN GENERAL.—Sums in the Savings Fund  
16 credited to a participating individual’s personal so-  
17 cial security savings account may not be used for, or  
18 diverted to, purposes other than for the exclusive  
19 benefit of the participating individual or the partici-  
20 pating individual’s beneficiaries under this part.

21           “(2) ASSIGNMENTS.—Sums in the Savings  
22 Fund may not be assigned or alienated and are not  
23 subject to execution, levy, attachment, garnishment,  
24 or other legal process.

1       “(e) PAYMENT OF ADMINISTRATIVE EXPENSES.—  
2 Administrative expenses incurred to carry out this part  
3 shall be paid out of net earnings in the Savings Fund in  
4 conjunction with the allocation of investment earnings and  
5 losses under section 254(c).

6       “(f) LIMITATION.—The sums in the Savings Fund  
7 shall not be appropriated for any purpose other than the  
8 purposes specified in this part and may not be used for  
9 any other purpose.

10 **“SEC. 253. PARTICIPATION IN PROGRAM.**

11       “(a) PARTICIPATING INDIVIDUAL.—For purposes of  
12 this part, the term ‘participating individual’ means any  
13 individual—

14               “(1)(A) who receives wages in any calendar  
15 year after December 31, 2011, on which there is im-  
16 posed a tax under section 3101(a) of the Internal  
17 Revenue Code of 1986, or

18               “(B) who derives self-employment income for a  
19 taxable year beginning after December 31, 2011, on  
20 which there is imposed a tax under section 1401(a)  
21 of the Internal Revenue Code of 1986,

22               “(2) who is born on or after January 1, 1955,  
23 and

24               “(3) who has not filed an election to renounce  
25 such individual’s status as a participating individual

1 under subsection (b) or has filed such an election  
2 and has subsequently filed an election to reinstate  
3 such individual's status as a participating individual  
4 under subsection (c).

5 “(b) RENUNCIATION OF PARTICIPATION.—

6 “(1) IN GENERAL.—An individual—

7 “(A) who has not attained retirement age  
8 (as defined in section 216(l)(1)), and

9 “(B) with respect to whom no distribution  
10 has been made from amounts credited to the in-  
11 dividual's personal social security savings ac-  
12 count for the purchase of a personal social se-  
13 curity savings annuity,

14 may elect, in such form and manner as shall be pre-  
15 scribed in regulations of the Board, to renounce  
16 such individual's status as a ‘participating indi-  
17 vidual’ for purposes of this part. Upon completion of  
18 the procedures provided for under paragraph (2),  
19 any such individual who has made such an election  
20 shall not be treated as a participating individual  
21 under this part, effective as if such individual had  
22 never been a participating individual. The Board  
23 shall provide for immediate notification of such elec-  
24 tion to the Commissioner of Social Security, the Sec-  
25 retary of the Treasury, and the Executive Director.

1           “(2) PROCEDURE.—The Board shall prescribe  
2           by regulation procedures governing the termination  
3           of an individual’s status as ‘participating individual’  
4           pursuant to an election under this subsection. Such  
5           procedures shall include—

6                       “(A) prompt closing of the individual’s per-  
7                       sonal social security savings account established  
8                       under section 254,

9                       “(B) revocation of any benefit credit cer-  
10                      tificate assigned to the individual’s personal so-  
11                      cial security savings account under section 255,  
12                      and

13                     “(C) prompt transfer to the Federal Old-  
14                     Age and Survivors Insurance Trust Fund as  
15                     general receipts of any amount held in the Tier  
16                     II Investment Fund of the Savings Fund or  
17                     under a Tier III Investment Option pursuant to  
18                     section 256 or 257 and credited to such individ-  
19                     ual’s personal social security savings account.

20           “(c) REINSTATEMENT OF PARTICIPATION.—

21                     “(1) IN GENERAL.—Any individual who has  
22                     filed an election under subsection (b) to renounce  
23                     such individual’s status as a ‘participating indi-  
24                     vidual’ under this part may elect, in such form and  
25                     manner as shall be prescribed in regulations of the

1 Board, to reinstate such status. Such regulations  
2 shall provide for regular, periodic opportunities for  
3 the filing of such an election. The Board shall pro-  
4 vide for immediate notification to the Commissioner  
5 of Social Security, the Secretary of the Treasury,  
6 and the Executive Director of such election.

7 “(2) EFFECTIVENESS OF REINSTATEMENT.—  
8 An election under this subsection shall be effective  
9 with respect to wages earned, and self-employment  
10 income derived, on the earliest date on which the  
11 Board determines is practicable to make such elec-  
12 tion effective following the date of the filing of the  
13 election. The individual filing the election shall be  
14 treated as becoming a participating individual under  
15 this part on the effective date of the election as if  
16 such individual first met the requirements of sub-  
17 section (a) on such date.

18 “(3) IRREVOCABILITY.—An election under this  
19 subsection shall be irrevocable.

20 **“SEC. 254. PERSONAL SOCIAL SECURITY SAVINGS AC-**  
21 **COUNTS.**

22 “(a) ESTABLISHMENT OF PUBLICLY ADMINISTERED  
23 SYSTEM OF PERSONAL SECURITY SAVINGS ACCOUNTS.—  
24 As soon as practicable after the later of January 1, 2012,  
25 or the date on which an individual becomes a participating



1 individual under this part, the Executive Director shall es-  
2 tablish a personal social security savings account for such  
3 individual. Such account shall be the means by which  
4 amounts held in the Tier I Investment Fund and the Tier  
5 II Investment Fund of the Savings Fund under sections  
6 255 and 256 and amounts held under Tier III Investment  
7 Options under section 257 are credited to such individual,  
8 under procedures which shall be established by the Board  
9 by regulation. Each account of a participating individual  
10 shall be identified to such participating individual by  
11 means of the participating individual's social security ac-  
12 count number.

13       “(b) ACCOUNT BALANCE.—The balance in a partici-  
14 pating individual's account at any time is the sum of—

15               “(1) the balance in the Tier I Investment Fund  
16               of the Savings Fund credited to such participating  
17               individual prior to transfer of the credited amount to  
18               the Tier II Investment Fund of the Savings Fund;  
19               plus

20               “(2) the excess of—

21                       “(A) all deposits in the Tier II Investment  
22                       Fund of the Savings Fund credited to such par-  
23                       ticipating individual's personal social security  
24                       savings account, subject to such increases and  
25                       reductions as may result from allocations made

1 to and reductions made in the account pursuant  
 2 to subsection (c)(1); over

3 “(B) amounts paid out of the Tier II In-  
 4 vestment Fund in connection with amounts  
 5 credited to such participating individual’s per-  
 6 sonal social security savings account; plus

7 “(3) the excess of—

8 “(A) the deposits in the Tier III Invest-  
 9 ment Options credited to such participating in-  
 10 dividual’s personal social security savings ac-  
 11 count, subject to such increases and reductions  
 12 as may result from amounts credited to, and re-  
 13 ductions made in, the account pursuant to sub-  
 14 section (c)(2); over

15 “(B) amounts paid out of the Tier III In-  
 16 vestment Options of such participating indi-  
 17 vidual.

18 The calculation made under paragraph (3) shall be made  
 19 separately for each Tier III Investment Option of the par-  
 20 ticipating individual. The Board shall also hold for the  
 21 participating individual any benefit credit certificate as-  
 22 signed to the participating individual’s personal social se-  
 23 curity savings account under section 255.

24 “(c) ALLOCATION OF EARNINGS AND LOSSES.—Pur-  
 25 suant to regulations which shall be prescribed by the

1 Board, the Executive Director shall allocate to each per-  
 2 sonal social security savings account an amount equal to  
 3 the net earnings and net losses from each investment of  
 4 sums—

5           “(1) in the Tier I Investment Fund and the  
 6 Tier II Investment Fund which are attributable to  
 7 sums credited to such account reduced by an appro-  
 8 priate share of the administrative expenses paid out  
 9 of the net earnings, as determined by the Executive  
 10 Director; and

11           “(2) in the Tier III Investment Options which  
 12 are attributable to sums credited to such account re-  
 13 duced by the administrative expenses paid out of the  
 14 net earnings.

15 **“SEC. 255. TIER I INVESTMENT FUND.**

16           “(a) ESTABLISHMENT OF TIER I INVESTMENT  
 17 FUND.—

18           “(1) IN GENERAL.—The Savings Fund shall in-  
 19 clude a separate fund to be known as the ‘Tier I In-  
 20 vestment Fund’.

21           “(2) AMOUNTS IN FUND.—The Tier I Invest-  
 22 ment Fund consists of all amounts derived from  
 23 payments into the Fund under section 252(b) and  
 24 remaining after investment of such amounts under

1 subsection (b), including additional amounts derived  
2 as income from such investments.

3 “(3) USE OF FUNDS.—The amounts held in the  
4 Fund are appropriated and shall remain available  
5 without fiscal year limitation—

6 “(A) to be held for investment on behalf of  
7 participating individuals under subsection (b),

8 “(B) to pay the administrative expenses re-  
9 lated to the Fund, and

10 “(C) to make transfers from the Fund  
11 under subsection (c)(2).

12 “(b) INVESTMENT OF FUND BALANCE.—For pur-  
13 poses of investment of the Tier I Investment Fund, the  
14 Board shall contract with appropriate professional asset  
15 managers, recordkeepers, and custodians selected for in-  
16 vestment of amounts held in the Fund, so as to provide  
17 for investment of the balance of the Fund, in a manner  
18 providing broad diversification in accordance with regula-  
19 tions of the Board, in—

20 “(1) insurance contracts,

21 “(2) certificates of deposit, or

22 “(3) other instruments or obligations selected  
23 by such asset managers,

1 which return the amount invested and pay interest, at a  
2 specified rate or rates, on that amount during a specified  
3 period of time.

4 “(c) SEPARATE CREDITING TO PERSONAL SOCIAL  
5 SECURITY SAVINGS ACCOUNTS AND TRANSFERS TO THE  
6 TIER II INVESTMENT FUND OR TO TIER III INVESTMENT  
7 OPTIONS.—

8 “(1) CREDITING TO ACCOUNTS.—

9 “(A) IN GENERAL.—Subject to this para-  
10 graph, the Board shall provide for prompt, sep-  
11 arate crediting, as soon as practicable, of the  
12 amounts deposited in the Tier I Investment  
13 Fund to the personal social security savings ac-  
14 count of each participating individual with re-  
15 spect to the redirected social security contribu-  
16 tions (as defined in section 252(b)(3)) of such  
17 participating individual. The Board shall in-  
18 clude in such crediting, with respect to each  
19 such individual, any increases or decreases in  
20 such amounts so as to reflect the net returns  
21 and losses from investment of the balance of  
22 the Fund prior to such crediting. For purposes  
23 of determining such increases and decreases for  
24 each calendar year, the amounts deposited into  
25 the Fund in connection with such individual

1           during such calendar year shall be deemed to  
2           have been deposited on June 30 of such year.

3           “(B) TREATMENT OF MARRIED PARTICI-  
4           PATING INDIVIDUALS.—If the participating in-  
5           dividual is married as of the end of the calendar  
6           year in which the amounts to be credited were  
7           deposited in the Tier I Investment Fund and  
8           the spouse is also a participating individual, the  
9           personal social security savings account of the  
10          participating individual and the personal social  
11          security savings account of his or her spouse  
12          shall each be credited with 50 percent of such  
13          amounts.

14          “(2) TRANSFERS FROM THE TIER I INVEST-  
15          MENT FUND.—In accordance with elections filed  
16          with the Board by a participating individual, any  
17          amount credited to the personal social security sav-  
18          ings account of such participating individual under  
19          paragraph (1) shall be promptly transferred to the  
20          Tier II Investment Fund of the Savings Fund for  
21          investment in accordance with section 256 and, to  
22          the extent available under section 257, to Tier III  
23          Investment Options in accordance with section 257.

24          “(d) TREATMENT OF AMOUNTS HELD IN TIER I IN-  
25          VESTMENT FUND.—Subject to this part—

1           “(1) until amounts deposited into the Tier I In-  
 2           vestment Fund during any calendar year are cred-  
 3           ited to personal social security savings accounts,  
 4           such amounts shall be treated as the unallocated  
 5           property of all participating individuals with respect  
 6           to whom amounts were deposited in the Fund dur-  
 7           ing such year, jointly held in trust for such partici-  
 8           pating individuals in the Savings Fund, and

9           “(2) amounts deposited into the Fund which  
 10          are credited to the personal social security savings  
 11          account of a participating individual shall be treated  
 12          as property of the participating individual, held in  
 13          trust for such participating individual in the Savings  
 14          Fund.

15 **“SEC. 256. TIER II INVESTMENT FUND.**

16          “(a) ESTABLISHMENT OF TIER II INVESTMENT  
 17          FUND.—

18           “(1) IN GENERAL.—The Savings Fund shall in-  
 19          clude a separate fund to be known as the ‘Tier II  
 20          Investment Fund’.

21           “(2) AMOUNTS IN FUND.—The Tier II Invest-  
 22          ment Fund consists of all amounts derived from  
 23          payments into the Fund under section 255(c)(2) and  
 24          remaining after investment of such amounts under

1 subsection (b), including additional amounts derived  
2 as income from such investments.

3 “(3) USE OF FUNDS.—The amounts held in the  
4 Fund are appropriated and shall remain available  
5 without fiscal year limitation—

6 “(A) to be held for investment under sub-  
7 section (b),

8 “(B) to pay the administrative expenses re-  
9 lated to the Fund, and

10 “(C) to make transfers to Tier III Invest-  
11 ment Options under section 257 or to make  
12 payments under section 258.

13 “(b) PAYMENTS INTO TIER II INVESTMENT FUND.—

14 “(1) IN GENERAL.—Upon the crediting under  
15 section 252 to the personal social security savings  
16 account of a participating individual of any amount  
17 held in the Tier I Investment Fund for any calendar  
18 year, the Board shall transfer from the Tier I In-  
19 vestment Fund into the Tier II Investment Fund  
20 any amount so credited to such participating individ-  
21 ual’s account which is not transferred to a Tier III  
22 Investment Option pursuant to an election under  
23 section 257(a).

24 “(2) ONGOING SEPARATE CREDITING.—Subject  
25 to this paragraph, the Board shall provide for ongo-



1 ing separate crediting to each participating individ-  
2 ual's personal social security savings account of the  
3 amounts deposited in the Tier II Investment Fund  
4 with respect to such participating individual, to-  
5 gether with any increases or decreases therein so as  
6 to reflect the net returns and losses from investment  
7 thereof while held in the Fund.

8 “(c) INVESTMENT ACCOUNTS.—

9 “(1) IN GENERAL.—For purposes of investment  
10 of the Tier II Investment Fund, the Board shall di-  
11 vide the Fund into 6 investment accounts. The  
12 Board shall contract with appropriate investment  
13 managers, recordkeepers, and custodians selected for  
14 investment of amounts held in each investment ac-  
15 count. Such accounts shall consist of—

16 “(A) a Lifecycle Investment Account,

17 “(B) a Government Securities Investment  
18 Account,

19 “(C) a Fixed Income Investment Account,

20 “(D) a Common Stock Index Investment  
21 Account,

22 “(E) a Small Capitalization Stock Index  
23 Investment Account, and

24 “(F) an International Stock Index Invest-  
25 ment Account.

1           “(2) ELECTION OF INVESTMENT OPTIONS.—

2           “(A) DEFAULT INVESTMENT ACCOUNT.—

3           Except as provided in an election in effect  
4           under subparagraph (B), amounts held in the  
5           Tier II Investment Fund shall be credited to  
6           the Lifecycle Investment Account.

7           “(B) ELECTION OF TRANSFERS BETWEEN

8           INVESTMENT ACCOUNTS.—In any case in which  
9           a participating individual who has an amount in  
10          such individual’s personal social security sav-  
11          ings account credited to any of the investment  
12          accounts in the Tier II Investment Fund files  
13          with the Secretary of the Treasury a written  
14          election under this subparagraph, not more fre-  
15          quently than annually and in accordance with  
16          regulations of the Board, the Secretary of the  
17          Treasury shall transfer the full amount so cred-  
18          ited in such investment account from such in-  
19          vestment account to any one of the other invest-  
20          ment accounts in the Tier II Investment Fund  
21          (whichever is designated in such election).

22          “(d) LIFECYCLE INVESTMENT ACCOUNT.—

23          “(1) IN GENERAL.—The investment manager,  
24          recordkeeper, and custodian selected for investment  
25          of amounts held in the Lifecycle Investment Account

1 shall invest such amounts under regulations which  
2 shall be prescribed by the Board in a mix of equities  
3 and fixed income instruments so as to ensure, to the  
4 maximum extent practicable, that, of the total bal-  
5 ance in the Fund credited to such account and avail-  
6 able for investment (after allowing for administrative  
7 expenses), the percentage invested in fixed income  
8 instruments by individuals in designated cohorts,  
9 ranging in age up to those of at least retirement  
10 age, will increase in a linear progression from 0 per-  
11 cent to 100 percent as the cohort approaches retire-  
12 ment age.

13           “(2) INVESTMENT IN EQUITIES.—In accordance  
14 with regulations which shall be prescribed by the  
15 Board, the Board shall establish standards which  
16 must be met by equities selected for investment in  
17 the Lifecycle Investment Account. In conformity  
18 with such standards, the Board shall select, for pur-  
19 poses of such investment, indices which are com-  
20 prised of equities the aggregate market value of  
21 which is, in each case, a reasonably broad represen-  
22 tation of companies whose shares are traded on the  
23 equity markets. Amounts invested in equities under  
24 an investment option shall be held in a portfolio de-

1 signed to replicate the performance of one or more  
2 of such indices.

3 “(3) INVESTMENT IN FIXED INCOME INSTRU-  
4 MENTS.—In accordance with regulations which shall  
5 be prescribed by the Board, the Board shall estab-  
6 lish standards which must be met by fixed income  
7 instruments selected for investment in the Lifecycle  
8 Investment Account. Such standards shall take into  
9 account the competing considerations of risk and re-  
10 turn. Amounts invested in fixed income instruments  
11 in an investment option shall be held in a portfolio  
12 which shall consist of a diverse range of fixed income  
13 instruments, taking into full account the opposing  
14 considerations of risk and maximization of return.

15 “(e) GOVERNMENT SECURITIES INVESTMENT AC-  
16 COUNT.—

17 “(1) IN GENERAL.—Amounts in the Govern-  
18 ment Securities Investment Account shall be in-  
19 vested in securities of the United States Government  
20 as provided in this subsection.

21 “(2) ISSUANCE OF SPECIAL OBLIGATIONS.—  
22 The Secretary of the Treasury is authorized to issue  
23 special interest-bearing obligations of the United  
24 States for purchase by the Tier II Investment Fund  
25 for purposes of investment of amounts in the Gov-

1       ernment Securities Investment Account. Such obliga-  
2       tions shall have maturities fixed with due regard to  
3       the needs of the Fund as determined by the Board,  
4       and shall bear interest at a rate equal to the average  
5       market yield (computed by the Secretary of the  
6       treasury on the basis of market quotations as of the  
7       end of the calendar month next preceding the date  
8       of issue of such obligations) on all marketable inter-  
9       est-bearing obligations of the United States then  
10      forming a part of the public debt which are not due  
11      or callable earlier than 4 years after the end of such  
12      calendar month. Any average market yield computed  
13      under this paragraph which is not a multiple of one-  
14      eighth of 1 percent shall be rounded to the nearest  
15      multiple of one-eighth of 1 percent.

16      “(f) FIXED INCOME INVESTMENT ACCOUNT.—  
17      Amounts in the Fixed Income Investment Account shall  
18      be invested in instruments or obligations which return the  
19      amount invested and pay interest, at a specified rate or  
20      rates, on that amount during a specified period of time,  
21      consisting of instruments or obligations in one or more  
22      of the following categories:

23               “(1) insurance contracts;

24               “(2) certificates of deposit; or

1           “(3) other instruments or obligations selected  
2           by qualified professional asset managers.

3           “(g) COMMON STOCK INDEX INVESTMENT AC-  
4 COUNT.—

5           “(1) PORTFOLIO DESIGN.—Amounts held in the  
6           Common Stock Investment Account shall be invested  
7           in a portfolio of common stock designed to replicate  
8           the performance of the index selected under para-  
9           graph (2). The portfolio shall be designed such that,  
10          to the extent practicable, the percentage of the bal-  
11          ance in the Common Stock Index Investment Ac-  
12          count that is invested in each stock is the same as  
13          the percentage determined by dividing the aggregate  
14          market value of all shares of that stock by the ag-  
15          gregate market value of all shares of all stocks in-  
16          cluded in such index.

17          “(2) SELECTION OF INDEX.—The Board shall  
18          select, for purposes of investment of amounts held in  
19          the Common Stock Investment Account, an index  
20          which is a commonly recognized index comprised of  
21          common stock the aggregate market value of which  
22          is a reasonably complete representation of the  
23          United States equity markets.

24          “(h) SMALL CAPITALIZATION STOCK INDEX INVEST-  
25 MENT ACCOUNT.—

1           “(1) PORTFOLIO DESIGN.—Amounts held in the  
2           Small Capitalization Stock Index Investment Ac-  
3           count shall be invested in a portfolio of common  
4           stock designed to replicate the performance of the  
5           index selected under paragraph (2). The portfolio  
6           shall be designed such that, to the extent prac-  
7           ticable, the percentage of the balance in the Small  
8           Capitalization Stock Index Investment Account that  
9           is invested in each stock is the same as the percent-  
10          age determined by dividing the aggregate market  
11          value of all shares of that stock by the aggregate  
12          market value of all shares of all stocks included in  
13          such index.

14          “(2) SELECTION OF INDEX.—The Board shall  
15          select, for purposes of investment of amounts held in  
16          the Small Capitalization Stock Index Investment Ac-  
17          count, an index which is a commonly recognized  
18          index comprised of common stock the aggregate  
19          market value of which represents the United States  
20          equity markets excluding the common stocks in-  
21          cluded in the Common Stock Index Investment Ac-  
22          count.

23          “(i) INTERNATIONAL STOCK INDEX INVESTMENT  
24          ACCOUNT.—

1           “(1) PORTFOLIO DESIGN.—Amounts held in the  
2           International Stock Index Investment Account shall  
3           be invested in a portfolio of stock designed to rep-  
4           licate the performance of the index selected under  
5           paragraph (2). The portfolio shall be designed such  
6           that, to the extent practicable, the percentage of the  
7           balance in the International Stock Index Investment  
8           Account that is invested in each stock is the same  
9           as the percentage determined by dividing the aggre-  
10          gate market value of all shares of that stock by the  
11          aggregate market value of all shares of all stocks in-  
12          cluded in such index.

13           “(2) SELECTION OF INDEX.—The Board shall  
14          select, for purposes of investment of amounts held in  
15          the International Stock Index Investment Account,  
16          an index which is a commonly recognized index com-  
17          prised of common stock the aggregate market value  
18          of which is a reasonably complete representation of  
19          the international equity markets excluding the  
20          United States equity markets.

21           “(j) ADDITIONAL INVESTMENT OPTIONS.—The  
22          Board may from time to time, as determined by regulation  
23          as appropriate to further the purposes of this section,  
24          shall—



1           “(1) establish investment accounts in the Tier  
2           II Investment Fund meeting the requirements of  
3           this section in addition to those established by this  
4           section, and

5           “(2) terminate investment accounts in the Tier  
6           II Investment Fund established pursuant to para-  
7           graph (1).

8           “(k) DISCLOSURE OF ADMINISTRATIVE COSTS.—The  
9           Board shall provide to each participating individual an an-  
10          nual disclosure of the rate of administrative costs charge-  
11          able with respect to investment in each investment account  
12          in the Tier II Investment Fund. Such disclosure shall be  
13          written in a manner calculated to be understood by the  
14          average participating individual.

15          “(l) TREATMENT OF AMOUNTS HELD IN TIER II IN-  
16          VESTMENT FUND.—Subject to this part, amounts depos-  
17          ited into, and held and accounted for in, the Tier II In-  
18          vestment Fund with respect to any participating individual  
19          shall continue to be treated as property of such partici-  
20          pating individual, held in trust for such participating indi-  
21          vidual in the Fund.

22          **“SEC. 257. TIER III INVESTMENT OPTIONS.**

23          “(a) ELECTION OF TIER III INVESTMENT OP-  
24          TIONS.—

1           “(1) IN GENERAL.—A participating individual  
2           may elect to direct transfers from amounts in the  
3           Savings Fund credited to the personal social security  
4           savings account of such individual into 1 or more  
5           Tier III Investment Options in accordance with  
6           paragraph (2).

7           “(2) COMMENCEMENT OF TIER III INVESTMENT  
8           OPTIONS UPON ATTAINMENT OF ELECTION THRESH-  
9           OLD.—In any case in which, as of the end of any  
10          calendar year, the total balance in the Savings Fund  
11          credited to a participating individual’s personal so-  
12          cial security savings account exceeds for the first  
13          time the election threshold, the Board shall, by regu-  
14          lation, provide for an opportunity for such partici-  
15          pating individual to make, at any time thereafter,  
16          such individual’s first election of one or more of the  
17          Tier III Investment Options for investment of an  
18          amount in the Savings Fund credited to such ac-  
19          count. Such election may be in lieu of or in addition  
20          to investment in the options available with respect to  
21          the Tier II Investment Fund of the Savings Fund.

22          “(3) ALLOCATION OF FUNDS.—In the case of  
23          an election under paragraph (1), funds credited to  
24          the personal social security savings account of the  
25          participating individual and elected for transfer to

1 one or more Tier III Investment Options shall be  
2 transferred to the Tier III Investment Options so  
3 elected for such calendar year, in percentages speci-  
4 fied in the election by the participating individual for  
5 each applicable portfolio.

6 “(4) ELECTION THRESHOLD.—

7 “(A) IN GENERAL.—Subject to subpara-  
8 graph (B), for purposes of this subsection the  
9 term ‘election threshold’ means an amount  
10 equal to \$25,000.

11 “(B) ADJUSTMENTS.—The Board shall ad-  
12 just annually (effective for annual reporting  
13 months occurring after December 2012) the  
14 dollar amount set forth in subparagraph (A)  
15 under procedures providing for adjustments in  
16 the same manner and to the same extent as ad-  
17 justments are provided for under the proce-  
18 dures used to adjust benefit amounts under sec-  
19 tion 215(i)(2)(A), except that any amount so  
20 adjusted that is not a multiple of \$1.00 shall be  
21 rounded to the nearest multiple of \$1.00.

22 “(5) SUBSEQUENT INVESTMENT OF AMOUNTS  
23 HELD IN TIER III INVESTMENT OPTIONS.—Any  
24 amounts held in one or more Tier III Investment  
25 Options may be—

1           “(A) transferred at any time to one or  
2           more other Tier III Investment Options, subject  
3           to applicable regulations of the Board and the  
4           terms governing the affected Tier III Invest-  
5           ment Options, and

6           “(B) transferred, not more frequently than  
7           annually, to the Tier II Investment Fund, for  
8           deposit in the applicable investment account  
9           then selected by the participating individual  
10          under section 256.

11       “(b) CERTIFICATION OF ELIGIBLE ENTITIES.—

12           “(1) IN GENERAL.—The Board shall certify eli-  
13           gible entities to offer Tier III Investment Options  
14           under this part.

15           “(2) APPLICATION.—Any eligible entity that de-  
16           sires to be certified by the Board to offer a Tier III  
17           Investment Option shall submit an application to the  
18           Board at such time, in such manner, and containing  
19           such information as the Board may require.

20           “(3) REQUIREMENTS FOR APPROVAL.—The  
21           Board shall not certify an eligible entity unless such  
22           eligible entity agrees to the following requirements:

23           “(A) SEPARATE ACCOUNTING.—Each eligi-  
24           ble entity shall, with respect to each Tier III

1 Investment Option offered by such eligible enti-  
2 ty to participating individuals—

3 “(i) establish separate accounts for  
4 the contributions of each participating in-  
5 dividual, and any earnings properly allo-  
6 cable to the contributions, and

7 “(ii) maintain separate recordkeeping  
8 with respect to each account.

9 “(B) TREATMENT OF AMOUNTS HELD IN  
10 FUND.—Amounts deposited into, and held and  
11 accounted for in, a Tier III Investment Option  
12 with respect to any participating individual  
13 shall be treated as property of such partici-  
14 pating individual, held in trust for such partici-  
15 pating individual.

16 “(C) TRUST REQUIREMENTS.—Amounts  
17 held and accounted for with respect to a partici-  
18 pating individual shall be held in a trust created  
19 or organized in the United States for the exclu-  
20 sive benefit of such individual or his bene-  
21 ficiaries.

22 “(D) EXEMPTION FROM THIRD PARTY  
23 CLAIMS.—Each Tier III Investment Option  
24 shall be exempt from any and all third party  
25 claims against the eligible entity.

1           “(E) DISCLOSURE OF ADMINISTRATIVE  
2 COSTS.—Each eligible entity offering a Tier III  
3 Investment Option under this section shall pro-  
4 vide to each participating individual an annual  
5 disclosure of the rate of administrative costs  
6 chargeable with respect to investment in such  
7 Option. Such disclosure shall be written in a  
8 manner calculated to be understood by the av-  
9 erage participating individual. The Board shall  
10 provide for coordination of disclosures with re-  
11 spect to Tier III Investment Options under this  
12 subparagraph so as to assist participating indi-  
13 viduals in comparing alternative Options based  
14 on administrative costs.

15           “(F) REPORTING TO THE EXECUTIVE DI-  
16 RECTOR AND THE BOARD.—Each eligible entity  
17 shall provide reports to the Executive Director  
18 and the Board at such time, in such manner,  
19 and containing such information as the Board  
20 may require.

21           “(4) ELIGIBLE ENTITY DEFINED.—For pur-  
22 poses of this section, the term ‘eligible entity’ means  
23 any investment company (as defined in section 3 of  
24 the Investment Company Act of 1940) or other per-

1 son that the Board determines appropriate to offer  
2 Tier III Investment Options under this part.

3 “(c) APPROVAL OF TIER III INVESTMENT OP-  
4 TIONS.—

5 “(1) IN GENERAL.—No funds may be trans-  
6 ferred into a Tier III Investment Option unless the  
7 Board has approved an application submitted under  
8 paragraph (2) with respect to the option.

9 “(2) APPLICATION.—With respect to each Tier  
10 III Investment Option that an eligible entity cer-  
11 tified under subsection (b)(1) seeks to offer, such  
12 entity shall submit an application to the Board at  
13 such time, in such manner, and containing such in-  
14 formation as the Board may require.

15 “(3) QUALIFICATIONS FOR APPROVAL.—The  
16 Board may not approve an application submitted  
17 under paragraph (2) in connection with a Tier III  
18 Investment Option unless the following requirements  
19 are met:

20 “(A) OPTION MUST BE OFFERED BY CER-  
21 TIFIED ELIGIBLE ENTITY.—The Tier III In-  
22 vestment Option is offered by an eligible entity  
23 certified under subsection (b).

24 “(B) OPTION MUST MEET QUALITY FAC-  
25 TORS.—

1                   “(i) IN GENERAL.—The Tier III In-  
2                   vestment Option meets qualifications which  
3                   shall be prescribed by the Board relating  
4                   to the quality factors described in clause  
5                   (ii).

6                   “(ii) QUALITY FACTORS.—The quality  
7                   factors described in this clause are—

8                                 “(I) the safety and soundness of  
9                                 the Tier III Investment Option’s pro-  
10                                posed investment policy;

11                               “(II) the experience and record  
12                               of performance of the proposed invest-  
13                               ment option, if any;

14                               “(III) the experience and record  
15                               of performance of the entity issuing or  
16                               offering such option; and

17                               “(IV) such other factors as the  
18                               Board may determine appropriate.

19                   “(d) CONSIDERATIONS FOR CERTIFICATION AND AP-  
20                   PROVAL.—In determining whether to certify an eligible en-  
21                   tity under subsection (b) or to approve a Tier III Invest-  
22                   ment Option under subsection (c), the Board shall—

23                               “(1) act in the best interests of the partici-  
24                               pating individuals;



1           “(2) base its determination solely on consider-  
2           ations of balancing safety and soundness of the Tier  
3           III Investment Option with the maximization of re-  
4           turns of such option; and

5           “(3) not base any determination related to the  
6           entity or option on political or other extraneous con-  
7           siderations.

8           “(e) SPONSORSHIP OF TIER III INVESTMENT OP-  
9           TIONS BY MEMBERSHIP AND LABOR ORGANIZATIONS.—

10           “(1) IN GENERAL.—A membership or labor or-  
11           ganization (as defined by the Board) may sponsor  
12           Tier III Investment Options under contracts with el-  
13           igible entities certified under subsection (b) who  
14           shall administer the investment option if such invest-  
15           ment option is approved by the Board under sub-  
16           section (c).

17           “(2) LIMITATION TO MEMBERSHIP.—A mem-  
18           bership or labor organization (as so defined) may  
19           limit to the members of such organization participa-  
20           tion in a Tier III Investment Option sponsored by  
21           such organization.

22           “(f) DISTRIBUTIONS IN CASE OF DEATH.—Upon the  
23           death of a participating individual, the amount of any as-  
24           sets held under a Tier III Investment Option credited to  
25           the personal social security savings account of such indi-

1 vidual shall be distributed in accordance with section  
2 258(e).

3 **“SEC. 258. PERSONAL SOCIAL SECURITY SAVINGS ANNUITY**  
4 **AND OTHER DISTRIBUTIONS.**

5 “(a) DATE OF INITIAL DISTRIBUTION.—Except as  
6 provided in subsection (e), distributions may be made to  
7 a participating individual from amounts credited to the  
8 personal social security savings account of such individual  
9 only on or after the earliest of—

10 “(1) the date the participating individual at-  
11 tains retirement age (as defined in section 216(l)(1))  
12 or, if elected by the individual, early retirement age  
13 (as defined in section 216(l)(2)); or

14 “(2) the date on which the amount credited to  
15 the participating individual’s personal social security  
16 savings account is sufficient to purchase a personal  
17 social security savings annuity with a monthly ben-  
18 efit that is at least equal to the minimum annuity  
19 payment amount (as defined in subsection  
20 (b)(4)(C)(iii)).

21 “(b) PERSONAL SOCIAL SECURITY SAVINGS ANNU-  
22 ITIES.—

23 “(1) NOTICE OF AVAILABLE ANNUITIES.—Not  
24 later than the date determined under subsection (a),

1 the Board shall notify each participating individual  
2 of—

3 “(A) the most recent listing of personal so-  
4 cial security savings annuities offered by the  
5 Annuity Issuance Authority under paragraph  
6 (2); and

7 “(B) the entitlement of the participating  
8 individual to purchase such an annuity.

9 “(2) ANNUITY ISSUANCE AUTHORITY.—There is  
10 established in the office of the Board an agency  
11 which shall be known as the ‘Annuity Issuance Au-  
12 thority’. The Authority shall provide, in accordance  
13 with regulations of the Board, for the issuance of  
14 personal social security savings annuities for pur-  
15 chase from the Authority under this section and to  
16 otherwise administer the issuance of such annuities  
17 in accordance with such regulations.

18 “(3) ANNUITY RESERVES ACCOUNT.—There is  
19 established in the Savings Fund an Annuity Re-  
20 serves Account. The Account shall consist of all  
21 amounts received by the Authority from the pur-  
22 chase of personal social security savings annuities  
23 under this section (plus such amounts as may be  
24 transferred to the Account under paragraph (5)(B)),  
25 increased by the total net earnings from investments

1 of such reserves under subparagraph (A) of para-  
2 graph (5) and reduced by the total net losses from  
3 investments of such reserves under such subpara-  
4 graph.

5 “(4) PURCHASE OF ANNUITIES.—

6 “(A) SELECTION OF ANNUITY.—On a date  
7 elected by the participating individual, but no  
8 earlier than the date determined under sub-  
9 section (a), a participating individual may pur-  
10 chase a personal social security savings annuity  
11 selected from among the annuities offered by  
12 the Authority under paragraph (2).

13 “(B) TRANSFER OF ASSETS.—Upon the  
14 selection of an annuity by a participating indi-  
15 vidual under subparagraph (A), the Board shall  
16 provide for the transfer of assets, credited to  
17 the personal social security savings account of  
18 the participating individual and held in the Tier  
19 II Investment Fund or under 1 or more Tier  
20 III Investment Options (or any combination  
21 thereof), in a total amount sufficient to pur-  
22 chase the annuity selected by the participating  
23 individual from annuities offered by the Author-  
24 ity.

1           “(C)   MINIMUM   ANNUITY   PAYMENT  
2           AMOUNT.—

3           “(i)   IN GENERAL.—Subject to sub-  
4           paragraph (D), if, at the time a personal  
5           social security savings annuity is pur-  
6           chased under subparagraph (A), the assets  
7           credited to the personal social security sav-  
8           ings account of the participating individual  
9           are sufficient to purchase a personal social  
10          security savings annuity offered by the Au-  
11          thority under paragraph (2) with a month-  
12          ly annuity payment that is at least equal  
13          to the minimum annuity payment amount,  
14          the amount of the monthly annuity pay-  
15          ment provided by such annuity may not be  
16          less than the minimum annuity payment  
17          amount.

18          “(ii)   CONSTRUCTION.—Nothing in  
19          this subparagraph shall be construed to  
20          prohibit a participating individual from  
21          using personal social security savings ac-  
22          count assets to purchase a personal social  
23          security savings annuity offered by the Au-  
24          thority under paragraph (2) which provides  
25          for a monthly payment in excess of the

1 minimum amount required under clause  
2 (i).

3 “(iii) MINIMUM ANNUITY PAYMENT  
4 AMOUNT DEFINED.—For purposes of this  
5 part, the term ‘minimum annuity payment  
6 amount’ means, as of any date, an amount  
7 equal to the monthly equivalent of 150 per-  
8 cent of the poverty line for an individual  
9 (as in effect on such date), determined  
10 under the poverty guidelines of the Depart-  
11 ment of Health and Human Services  
12 issued under sections 652 and 673(2) of  
13 the Omnibus Budget Reconciliation Act of  
14 1981.

15 “(D) PURCHASE OF ANNUITIES IN THE  
16 EVENT OF INSUFFICIENT ASSETS.—If a partici-  
17 pating individual desires, or is required under  
18 subsection (f), to purchase a personal social se-  
19 curity savings annuity under subsection (b) on  
20 or after the date determined under subsection  
21 (a)(1) and the assets of the personal social se-  
22 curity savings account of such individual are in-  
23 sufficient to purchase a personal social security  
24 savings annuity that provides for a monthly  
25 payment that is at least equal to the minimum

1 annuity payment amount (as defined in para-  
2 graph (4)(C)(iii)), the participating individual  
3 shall purchase a personal social security savings  
4 annuity with a monthly payment equal to the  
5 maximum amount that the participating indi-  
6 vidual's personal social security savings account  
7 can fund, as determined in accordance with reg-  
8 ulations which shall be prescribed by the Au-  
9 thority, and that otherwise meets the require-  
10 ments of this subsection (including the cost-of-  
11 living protection requirement of subsection  
12 (c)(1)(C)), and the Authority shall provide for  
13 appropriate certification to the Secretary of the  
14 Treasury with respect to the participating indi-  
15 vidual's eligibility for guarantee payments  
16 under section 259.

17 “(5) MAINTENANCE OF RESERVES FOR PAY-  
18 MENT OF ANNUITIES.—

19 “(A) INVESTMENT OF RESERVES.—For  
20 purposes of investment of reserves held in the  
21 Annuity Reserves Account, the Authority shall  
22 contract with appropriate investment managers,  
23 recordkeepers, and custodians selected by the  
24 Authority for investment of such reserves. Such  
25 reserves shall be invested under regulations

1           which shall be prescribed by the Authority so as  
2           to ensure, to the maximum extent practicable,  
3           that, of the total balance of the reserves (after  
4           payment of administrative expenses to such  
5           managers, recordkeepers, and custodians)—

6                   “(i) 65 percent is invested in equities  
7                   in the same manner and under the same  
8                   standards as are provided in section  
9                   256(c)(4), and

10                   “(ii) 35 percent is invested in fixed in-  
11                   come instruments in the same manner and  
12                   under the same standards as are provided  
13                   in section 256(c)(5).

14                   “(B) PROVISION FOR FULL PAYMENT OF  
15                   ANNUITIES.—Payment of personal social secu-  
16                   rity savings annuities in accordance with the  
17                   terms of such annuities shall be made, irrespec-  
18                   tive of the sufficiency of reserves in the Annuity  
19                   Reserves Fund attributable to funds obtained  
20                   from the purchase of such annuities. In the  
21                   event of any impending insufficiency in the An-  
22                   nuity Reserves Account for the next fiscal year,  
23                   the Authority shall certify to the Secretary of  
24                   the Treasury the amount of such insufficiency,  
25                   and the Secretary of the Treasury shall transfer



1 from the Federal Old-Age and Survivors Insur-  
2 ance Trust Fund to the Annuity Reserves Ac-  
3 count the amount of the insufficiency, as so cer-  
4 tified, in such installments, made prior to or  
5 during such fiscal year, as are necessary to  
6 eliminate in advance such insufficiency.

7 “(c) PERSONAL SOCIAL SECURITY SAVINGS ANNU-  
8 ITY.—

9 “(1) IN GENERAL.—For purposes of this part,  
10 the term ‘personal social security savings annuity’  
11 means an annuity that meets the following require-  
12 ments:

13 “(A) The annuity starting date (as defined  
14 in section 72(c)(4) of the Internal Revenue  
15 Code of 1986) commences on the first day of  
16 the month beginning after the date of the pur-  
17 chase of the annuity.

18 “(B) The terms of the annuity provide—

19 “(i) for a monthly payment to the  
20 participating individual during the life of  
21 the participating individual equal to at  
22 least the minimum annuity payment  
23 amount (as defined in subsection  
24 (b)(4)(C)(iii)), or

1           “(ii) in the case of an annuity pur-  
2           chased under subparagraph (D) of sub-  
3           section (b)(4), the maximum monthly pay-  
4           ment determined under regulations pre-  
5           scribed under such subparagraph.

6           “(C) The terms of the annuity include pro-  
7           cedures providing for adjustments in the  
8           amount of the monthly payments in the same  
9           manner and to the same extent as adjustments  
10          are provided for under the procedures used to  
11          adjust benefit amounts under section  
12          215(i)(2)(A). Nothing in this subparagraph  
13          shall be construed to preclude the terms gov-  
14          erning such an annuity from providing for ad-  
15          justments in the amount of monthly payments  
16          resulting in a payment for any month greater  
17          than the payment for that month that would re-  
18          sult from adjustments required under the pre-  
19          ceding sentence (b)(4)(D).

20          “(D) The terms of the annuity include  
21          such other terms and conditions as the Board  
22          requires for the protection of the annuitant.

23          “(2) EXEMPTION FROM THIRD PARTY  
24          CLAIMS.—Each personal social security savings an-

1           nuity shall be exempt from any and all third party  
2           claims against the issuer.

3           “(d) RIGHT TO USE EXCESS PERSONAL SOCIAL SE-  
4           CURITY SAVINGS ACCOUNT ASSETS.—To the extent assets  
5           credited to a participating individual’s personal social se-  
6           curity savings account remain after the purchase of an an-  
7           nuity under subsection (b), the remaining assets shall be  
8           payable to the participating individual at such time, in  
9           such manner, and in such amounts as the participating  
10          individual may specify, subject to subsection (f).

11          “(e) DISTRIBUTIONS IN CASE OF DEATH.—If the  
12          participating individual dies before all amounts which are  
13          held in the Tier I Investment Fund or the Tier II Invest-  
14          ment Fund of the Savings Fund or held under a Tier III  
15          Investment Option and which are credited to the personal  
16          social security savings account of the individual are other-  
17          wise distributed in accordance with this section, such  
18          amounts shall be distributed, under regulations which  
19          shall be prescribed by the Board—

20                 “(1) in any case in which one or more bene-  
21                 ficiaries have been designated in advance, to such  
22                 beneficiaries in accordance with such designation as  
23                 provided in such regulations, and

1           “(2) in the case of any amount not distributed  
2           as described in paragraph (1), to such individual’s  
3           estate.

4           “(f) DATE OF FINAL DISTRIBUTION.—All amounts  
5           credited to the personal social security savings account of  
6           an individual shall be distributed, by means of the pur-  
7           chase of annuities or otherwise in a manner consistent  
8           with the requirements of this section, not later than 5  
9           years after the date the individual attains retirement age  
10          (as defined in section 216(l)). The Board shall provide by  
11          regulation for means of distribution necessary to ensure  
12          compliance with the requirements of this subsection.

13          **“SEC. 259. GUARANTEE OF PROMISED BENEFITS.**

14          “(a) IN GENERAL.—If, for any month ending after  
15          the date on which a participating individual attains retire-  
16          ment age (as defined in section 216(l)(1)), the monthly  
17          payment under a participating individual’s personal social  
18          security savings annuity is less than the minimum annuity  
19          payment amount (as defined in section 258(b)(4)(C)(iii)),  
20          adjusted as provided in section 258(c)(1)(C), the Annuity  
21          Issuance Authority shall so certify to the Secretary of the  
22          Treasury and, upon receipt of such certification, such Sec-  
23          retary shall provide to the participating individual, from  
24          amounts in the Federal Old-Age and Survivors Insurance  
25          Trust Fund, a guaranty payment for such month to sup-

1 plement the personal social security savings annuity and  
2 to guarantee full payment of such individual's monthly  
3 promised benefits.

4 “(b) GUARANTY PAYMENT.—For purposes of sub-  
5 section (a), a participating individual's guaranty payment  
6 for any month is equal to the excess of—

7 “(1) the minimum annuity payment amount (as  
8 defined in section 258(b)(4)(C)(iii)), adjusted as  
9 provided in section 258(c)(1)(C); over

10 “(2) the payment for such month of the per-  
11 sonal social security savings annuity purchased by  
12 the participating individual.

13 “(c) PROTECTION OF PART A NORMAL RETIREMENT  
14 BENEFIT LEVELS.—

15 “(1) IN GENERAL.—In any case in which, for  
16 any month ending after the date on which a partici-  
17 pating individual attains retirement age (as defined  
18 in section 216(l)(1))—

19 “(A) such individual's assumed total nor-  
20 mal retirement part A benefit for such month,  
21 exceeds

22 “(B) the monthly payment payable for  
23 such month under such individual's personal so-  
24 cial security savings annuity,

1 the Secretary of the Treasury shall pay to such indi-  
2 vidual for such month, from amounts in the Federal  
3 Old-Age and Survivors Insurance Trust Fund, an  
4 additional amount (if any) equal to the excess of the  
5 amount described in subparagraph (A) over the  
6 amount described in subparagraph (B).

7 “(2) DEFINITION.—For purposes of this sub-  
8 section, the term ‘assumed total normal retirement  
9 part A benefit’ means, in connection with a partici-  
10 pating individual, the total amount of monthly insur-  
11 ance benefits under section 202 based on such indi-  
12 vidual’s wages and self-employment income (ad-  
13 justed by taking into account adjustments under sec-  
14 tion 215(i)) that would have been payable if—

15 “(A) section 202(z) did not apply, and

16 “(B) such individual applied for old-age in-  
17 surance benefits under section 202(a) during  
18 the month in which such individual attains re-  
19 tirement age (as defined in section 216(l)(1)).

20 **“SEC. 260. PERSONAL SOCIAL SECURITY SAVINGS BOARD.**

21 “(a) ESTABLISHMENT.—There is established in the  
22 executive branch of the Government a Personal Social Se-  
23 curity Savings Board.

24 “(b) COMPOSITION.—The Board shall be composed  
25 of—

1           “(1) 3 members appointed by the President, of  
2           whom 1 shall be designated by the President as  
3           Chairman; and

4           “(2) 2 members appointed by the President, of  
5           whom—

6                   “(A) 1 shall be appointed by the President  
7                   after taking into consideration the recommenda-  
8                   tion made by the Speaker of the House of Rep-  
9                   resentatives in consultation with the minority  
10                  leader of the House of Representatives; and

11                   “(B) 1 shall be appointed by the President  
12                   after taking into consideration the recommenda-  
13                   tion made by the majority leader of the Senate  
14                   in consultation with the minority leader of the  
15                  Senate.

16           “(c) ADVICE AND CONSENT.—Appointments under  
17           subsection (b) shall be made by and with the advice and  
18           consent of the Senate.

19           “(d) MEMBERSHIP REQUIREMENTS.—Members of  
20           the Board shall have substantial experience, training, and  
21           expertise in the management of financial investments and  
22           pension benefit plans.

23           “(e) LENGTH OF APPOINTMENTS.—

1           “(1) TERMS.—A member of the Board shall be  
2 appointed for a term of 4 years, except that of the  
3 members first appointed under subsection (b)—

4           “(A) the Chairman shall be appointed for  
5 a term of 4 years;

6           “(B) the members appointed under sub-  
7 section (b)(2) shall be appointed for terms of 3  
8 years; and

9           “(C) the remaining members shall be ap-  
10 pointed for terms of 2 years.

11          “(2) VACANCIES.—

12          “(A) IN GENERAL.—A vacancy on the  
13 Board shall be filled in the manner in which the  
14 original appointment was made and shall be  
15 subject to any conditions that applied with re-  
16 spect to the original appointment.

17          “(B) COMPLETION OF TERM.—An indi-  
18 vidual chosen to fill a vacancy shall be ap-  
19 pointed for the unexpired term of the member  
20 replaced.

21          “(3) EXPIRATION.—The term of any member  
22 shall not expire before the date on which the mem-  
23 ber’s successor takes office.

24          “(f) DUTIES.—The Board shall—



1           “(1) administer the program established under  
2 this part;

3           “(2) establish policies for the investment and  
4 management of the Savings Fund, including the  
5 Tier I Investment Fund and the Tier II Investment  
6 Fund, and amounts held under Tier III Investment  
7 Options, including policies applicable to the asset  
8 managers, recordkeepers, and custodians with re-  
9 sponsibility for managing the investment of amounts  
10 credited to personal social security investment ac-  
11 counts, and for the management and operation of  
12 personal social security savings annuities, which  
13 shall provide for—

14                   “(A) prudent investments suitable for ac-  
15 cumulating funds for payment of retirement in-  
16 come;

17                   “(B) sound management practices; and

18                   “(C) low administrative costs;

19           “(3) review the performance of investments  
20 made for the Tier I Investment Fund and the Tier  
21 II Investment Fund;

22           “(4) review the performance of investments  
23 made under Tier III Investment Options;

24           “(5) review the management and operation of  
25 personal social security savings annuities;

1           “(6) review and approve the budget of the  
2 Board; and

3           “(7) comply with the fiduciary requirements of  
4 part 4 of subtitle B of title I of the Employee Re-  
5 tirement Income Security Act of 1974 (relating to fi-  
6 duciary responsibility) in connection with any exer-  
7 cise of discretion in connection with the assets of the  
8 Savings Fund.

9           “(g) ADMINISTRATIVE PROVISIONS.—

10           “(1) IN GENERAL.—The Board may—

11           “(A) adopt, alter, and use a seal;

12           “(B) except as provided in paragraph (4),  
13 direct the Executive Director to take such ac-  
14 tion as the Board considers appropriate to  
15 carry out the provisions of this part and the  
16 policies of the Board in accordance with delega-  
17 tions under this part;

18           “(C) upon the concurring votes of 4 mem-  
19 bers, remove the Executive Director from office  
20 for good cause shown;

21           “(D) provide to the Executive Director  
22 such resources as are necessary to carry out the  
23 duties of the Executive Director; and

1           “(E) take such other actions as may be  
2 necessary to carry out the functions of the  
3 Board.

4           “(2) MEETINGS.—The Board shall meet—

5           “(A) not less than once during each  
6 month; and

7           “(B) at additional times at the call of the  
8 Chairman.

9           “(3) EXERCISE OF POWERS.—

10           “(A) IN GENERAL.—Except as provided in  
11 paragraph (1)(C), the Board shall perform the  
12 functions and exercise the powers of the Board  
13 on a majority vote of a quorum of the Board.  
14 Three members of the Board shall constitute a  
15 quorum for the transaction of business.

16           “(B) VACANCIES.—A vacancy on the  
17 Board shall not impair the authority of a  
18 quorum of the Board to perform the functions  
19 and exercise the powers of the Board.

20           “(4) LIMITATIONS ON INVESTMENTS.—The  
21 Board may not direct any person to invest or to  
22 cause to be invested any sums in the Tier II Invest-  
23 ment Fund or any personal social security invest-  
24 ment account in a specific asset or to dispose of or

1       cause to be disposed of any specific asset of such  
2       Fund or any such account.

3       “(h) COMPENSATION.—

4             “(1) IN GENERAL.—Each member of the Board  
5       who is not an officer or employee of the Federal  
6       Government shall be compensated at the daily rate  
7       of basic pay for level IV of the Executive Schedule  
8       for each day during which such member is engaged  
9       in performing a function of the Board.

10            “(2) EXPENSES.—A member of the Board shall  
11       be paid travel, per diem, and other necessary ex-  
12       penses under subchapter I of chapter 57 of title 5,  
13       United States Code, while traveling away from such  
14       member’s home or regular place of business in the  
15       performance of the duties of the Board.

16            “(3) SOURCE OF FUNDS.—Payments authorized  
17       under this subsection shall be paid from the Tier I  
18       Investment Fund or the Tier II Investment Fund,  
19       as determined appropriate by the Board.

20            “(i) DISCHARGE OF RESPONSIBILITIES.—The mem-  
21       bers of the Board shall discharge their responsibilities  
22       solely in the interest of the participating individuals and  
23       their beneficiaries under this part.

1       “(j) ANNUAL INDEPENDENT AUDIT.—The Board  
2 shall annually engage an independent qualified public ac-  
3 countant to audit the activities of the Board.

4       “(k) SUBMISSION OF BUDGET TO CONGRESS.—The  
5 Board shall prepare and submit to the President, and, at  
6 the same time, to the appropriate committees of Congress,  
7 an annual budget of the expenses and other items relating  
8 to the Board which shall be included as a separate item  
9 in the budget required to be transmitted to Congress  
10 under section 1105 of title 31, United States Code.

11       “(l) SUBMISSION OF LEGISLATIVE RECOMMENDA-  
12 TIONS.—The Board may submit to the President, and, at  
13 the same time, shall submit to each House of Congress,  
14 any legislative recommendations of the Board relating to  
15 any of its functions under this part or any other provision  
16 of law.

17 **“SEC. 261. EXECUTIVE DIRECTOR.**

18       “(a) APPOINTMENT OF EXECUTIVE DIRECTOR.—The  
19 Board shall appoint, without regard to the provisions of  
20 law governing appointments in the competitive service, an  
21 Executive Director by action agreed to by a majority of  
22 the members of the Board.

23       “(b) DUTIES.—The Executive Director shall, as de-  
24 termined appropriate by the Board—

1           “(1) carry out the policies established by the  
2 Board;

3           “(2) invest and manage the Tier I Investment  
4 Fund and the Tier II Investment Fund in accord-  
5 ance with the investment policies and other policies  
6 established by the Board;

7           “(3) administer the provisions of this part re-  
8 lating to the Tier I Investment Fund and the Tier  
9 II Investment Fund; and

10           “(4) prescribe such regulations (other than reg-  
11 ulations relating to fiduciary responsibilities) as may  
12 be necessary for the administration of this part re-  
13 lating to the Tier I Investment Fund and the Tier  
14 II Investment Fund.

15           “(c) ADMINISTRATIVE AUTHORITY.—The Executive  
16 Director may, within the scope of the duties of the Execu-  
17 tive Director as determined by the Board—

18           “(1) appoint such personnel as may be nec-  
19 essary to carry out the provisions of this part relat-  
20 ing to the Tier I Investment Fund and the Tier II  
21 Investment Fund;

22           “(2) subject to approval by the Board, procure  
23 the services of experts and consultants under section  
24 3109 of title 5, United States Code;

1           “(3) secure directly from an Executive agency,  
2           the United States Postal Service, or the Postal Rate  
3           Commission any information necessary to carry out  
4           the provisions of this part and the policies of the  
5           Board relating to the Tier I Investment Fund and  
6           the Tier II Investment Fund;

7           “(4) make such payments out of sums in the  
8           Tier I Investment Fund and the Tier II Investment  
9           Fund as the Executive Director determines, in ac-  
10          cordance with regulations of the Board, are nec-  
11          essary to carry out the provisions of this part and  
12          the policies of the Board;

13          “(5) pay the compensation, per diem, and travel  
14          expenses of individuals appointed under paragraphs  
15          (1), (2), and (6) from the Tier I Investment Fund  
16          or the Tier II Investment Fund, in accordance with  
17          regulations of the Board;

18          “(6) accept and use the services of individuals  
19          employed intermittently in the Government service  
20          and reimburse such individuals for travel expenses,  
21          authorized by section 5703 of title 5, United States  
22          Code, including per diem as authorized by section  
23          5702 of such title;

24          “(7) except as otherwise expressly prohibited by  
25          law or the policies of the Board, delegate any of the

1 Executive Director’s functions to such employees  
2 under the Board as the Executive Director may des-  
3 ignate and authorize such successive redelegations of  
4 such functions to such employees under the Board  
5 as the Executive Director may consider to be nec-  
6 essary or appropriate; and

7 “(8) take such other actions as are appropriate  
8 to carry out the functions of the Executive Direc-  
9 tor.”.

10 (b) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply with respect to wages paid after  
12 December 31, 2011, for pay periods ending after such  
13 date and self-employment income for taxable years begin-  
14 ning after such date.

15 **SEC. 403. MONTHLY INSURANCE BENEFITS FOR PARTICI-**  
16 **PATING INDIVIDUALS.**

17 Section 202 of the Social Security Act (42 U.S.C.  
18 402) is amended by adding at the end the following new  
19 subsection:

20 “Benefits for Participants Under Part B

21 “(z)(1) Notwithstanding the preceding provisions of  
22 this section—

23 “(A) a participating individual under the Per-  
24 sonal Social Security Savings Program under part B



1 shall not be entitled to old-age insurance benefits  
2 under subsection (a); and

3 “(B) except as provided in paragraph (2), no  
4 individual shall be entitled to benefits under this sec-  
5 tion on the basis of the wages and self-employment  
6 income of such a participating individual.

7 “(2) In the case of any such participating individual  
8 who dies before such individual purchases a personal social  
9 security savings annuity under section 258, paragraph  
10 (1)(B) shall not apply with respect to child’s insurance  
11 benefits under subsection (d), widow’s insurance benefits  
12 under subsection (e), widower’s insurance benefits under  
13 subsection (f), mother’s and father’s insurance benefits  
14 under subsection (g), and parent’s insurance benefits  
15 under subsection (h).”.

16 **SEC. 404. TAX TREATMENT OF ACCOUNTS.**

17 (a) IN GENERAL.—

18 (1) IN GENERAL.—Subchapter F of chapter 1  
19 of the Internal Revenue Code of 1986 (relating to  
20 exempt organizations) is amended by adding at the  
21 end the following new part:

22 **“PART IX—PERSONAL SOCIAL SECURITY**  
23 **SAVINGS PROGRAM**

“Sec. 530A. Personal social security savings program.

1 **“SEC. 530A. PERSONAL SOCIAL SECURITY SAVINGS PRO-**  
2 **GRAM.**

3 “(a) GENERAL RULE.—The Social Security Personal  
4 Savings Fund and each Tier III Investment Option are  
5 exempt from taxation under this subtitle. Notwithstanding  
6 the preceding sentence, sums in a personal social security  
7 savings account which are attributable to a Tier III Op-  
8 tion shall be subject to the taxes imposed by section 511  
9 (relating to imposition of tax on unrelated business income  
10 of charitable, etc. organizations).

11 “(b) DISTRIBUTIONS.—

12 “(1) IN GENERAL.—Any qualified distribution  
13 from—

14 “(A) amounts credited to a personal social  
15 security savings account from the Social Secu-  
16 rity Personal Savings Fund or attributable to a  
17 Tier III Investment Option, or

18 “(B) a personal social security savings an-  
19 nuity,

20 shall not be included in the gross income of the dis-  
21 tributee.

22 “(2) QUALIFIED DISTRIBUTION.—For purposes  
23 of paragraph (1), the term ‘qualified distribution’  
24 means a distribution which meets the requirements  
25 of section 258 of the Social Security Act and which

1 is not a guaranty payment (as defined by section  
2 259 of such Act).

3 “(c) DEFINITIONS.—For purposes of this section—

4 “(1) PERSONAL SOCIAL SECURITY SAVINGS AC-  
5 COUNT.—The term ‘personal social security savings  
6 account’ means an account established under section  
7 254(a) of the Social Security Act.

8 “(2) PERSONAL SOCIAL SECURITY SAVINGS AN-  
9 NUIITY.—The term ‘personal social security savings  
10 annuity’ means an annuity approved by the Personal  
11 Social Security Savings Board under section  
12 258(b)(3) of the Social Security Act.

13 “(3) SOCIAL SECURITY PERSONAL SAVINGS  
14 FUND.—The term ‘Social Security Personal Savings  
15 Fund’ means the Savings Fund established under  
16 section 252 of the Social Security Act.

17 “(4) TIER III INVESTMENT OPTION.—The term  
18 ‘Tier III Investment Option’ has the meaning given  
19 such term by section 251(9) of the Social Security  
20 Act.

21 “(d) ESTATE TAX TREATMENT.—No amount shall be  
22 includible in the gross estate of any individual for pur-  
23 poses of chapter 11 by reason of an interest in the Tier  
24 I Investment Fund or the Tier II Investment Fund of the  
25 Savings Fund or held under a Tier III Investment Option

1 and which is credited to the personal social security sav-  
2 ings account of the individual.”.

3           (2) CONFORMING AMENDMENT.—Section  
4 86(d)(1)(A) of such Code is amended by inserting  
5 “part A of” after “under”.

6           (3) CLERICAL AMENDMENT.—The table of  
7 parts for subchapter F of chapter 1 of such Code is  
8 amended by adding after the item relating to part  
9 VIII the following new item:

“PART IX. PERSONAL SOCIAL SECURITY SAVINGS PROGRAM.”.

10          (b) GUARANTY PAYMENTS.—Paragraph (1) of sec-  
11 tion 86(d) of the Internal Revenue Act of 1986, as amend-  
12 ed by subsection (a)(2), is amended by striking “or” at  
13 the end of subparagraph (A), by striking the period and  
14 inserting “, or” at the end of subparagraph (B), and by  
15 adding at the end the following new subparagraph:

16                   “(C) a guaranty payment under section  
17 259(a), and a payment of an additional amount  
18 under section 259(c), of the Social Security  
19 Act.”.

20          (c) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to taxable years beginning after  
22 December 31, 2010.

1 **SEC. 405. SELF-LIQUIDATING SOCIAL SECURITY TRANSI-**  
2 **TION FUND.**

3 Part B of title II of the Social Security Act (as added  
4 by section 101 of this Act) is amended by adding at the  
5 end the following new section:

6 **“SEC. 262. SELF-LIQUIDATING SOCIAL SECURITY TRANSI-**  
7 **TION FUND.**

8 “(a) ESTABLISHMENT.—There is hereby created on  
9 the books of the Treasury of the United States a trust  
10 fund to be known as the Self-Liquidating Social Security  
11 Transition Fund (in this section referred to as the ‘Transi-  
12 tion Fund’).

13 “(b) BOARD OF TRUSTEES.—

14 “(1) ESTABLISHMENT.—With respect to the  
15 Transition Fund, there is hereby created a body to  
16 be known as the Board of Trustees of the Transition  
17 Fund (in this section referred to as the ‘Board of  
18 Trustees’) composed of the Commissioner of Social  
19 Security, the Secretary of the Treasury, and the  
20 members of the Personal Social Security Savings  
21 Board.

22 “(2) DUTIES.—The Board of Trustees shall—

23 “(A) provide for the issuance of obligations  
24 by the Transition Fund pursuant to subsection  
25 (c),

1           “(B) provide for the receipt and manage-  
2           ment of amounts paid into the Transition Fund  
3           pursuant to subsection (d),

4           “(C) use all funds paid into the Transition  
5           Fund to redeem obligations issued under sub-  
6           section (e) as soon as practicable,

7           “(D) report to Congress not later than the  
8           first day of April of each year on the operation  
9           and status of the Transition Fund during the  
10          preceding fiscal year and on its expected oper-  
11          ation and status during the current fiscal year  
12          and the next 2 fiscal years, and

13          “(E) review the general policies followed in  
14          managing the Transition Fund, and recommend  
15          changes in such policies, including necessary  
16          changes in the provisions of law which govern  
17          the way in which the Transition Fund is to be  
18          managed.

19          “(3) MEETINGS.—The Board of Trustees shall  
20          meet not less frequently than once each calendar  
21          year.

22          “(c) ISSUANCE OF TRANSITION FUND BONDS.—

23                  “(1) ISSUANCE.—

24                          “(A) IN GENERAL.—The purposes for  
25                          which obligations of the United States may be

1 issued under chapter 31 of title 31, United  
2 States Code, are hereby extended to authorize  
3 the issuance at par of public-debt obligations by  
4 the Transition Fund.

5 “(B) REQUIRED ISSUANCE.—Beginning on  
6 January 1, 2012, whenever any obligation held  
7 in the Federal Old-Age and Survivors Insurance  
8 Trust Fund or the Federal Disability Insurance  
9 Trust Fund is repaid from the general fund of  
10 the Treasury to either of such Trust Funds, the  
11 Transition Fund shall issue an obligation under  
12 this subsection in an amount equal to the  
13 amount of interest and principal so repaid.

14 “(C) TRANSFER OF PROCEEDS TO GEN-  
15 ERAL FUND OF THE TREASURY.—Proceeds  
16 from the issuance of any obligation issued  
17 under this section shall be transferred to the  
18 general fund of the Treasury.

19 “(D) ACCOUNTING.—The debt owed on  
20 any obligation issued under this section shall be  
21 considered to be debt of the Transition Fund  
22 and shall be accounted for in such manner.

23 “(2) MATURITIES AND INTEREST RATE.—Such  
24 obligations issued by the Transition Fund for pur-  
25 chase by the public shall have maturities fixed with

1 due regard for the needs of the Transition Fund and  
2 shall bear interest at a rate equal to the average  
3 market yield (computed by the Secretary of the  
4 Treasury on the basis of market quotations as of the  
5 end of the calendar month next preceding the date  
6 of such issue) on all marketable interest-bearing ob-  
7 ligations of the United States then forming a part  
8 of the public debt which are not due or callable until  
9 after the expiration of 4 years from the end of such  
10 calendar month, except that where such average  
11 market yield is not a multiple of one-eighth of 1 per  
12 centum, the rate of interest on such obligations shall  
13 be the multiple of one-eighth of 1 per centum near-  
14 est such market yield.

15 “(3) REPAYMENT OF OBLIGATIONS.—Obliga-  
16 tions issued under this subsection may be redeemed  
17 only by funds in the Transition Fund.

18 “(d) DEPOSIT OF OASDI TRUST FUND SURPLUS.—

19 “(1) IN GENERAL.—There are appropriated to  
20 the Transition Fund for the fiscal year beginning in  
21 2033, and for each fiscal year thereafter, out of any  
22 moneys in the Federal Old-Age and Survivors Insur-  
23 ance Trust Fund, amounts equivalent to the OASDI  
24 trust fund surplus (as defined in paragraph (2)) for  
25 the preceding fiscal year.



1           “(2) TRANSFERS BASED ON ESTIMATES.—The  
2           amounts appropriated by paragraph (1) shall be  
3           transferred from time to time from the Federal Old-  
4           Age and Survivors Insurance Trust Fund to the  
5           Transition Fund, such amounts to be determined on  
6           the basis of estimates by the Commissioner of Social  
7           Security. Proper adjustments shall be made in  
8           amounts subsequently transferred to the extent prior  
9           estimates were in excess of or were less than such  
10          surplus.

11          “(3) OASDI TRUST FUND SURPLUS DE-  
12          FINED.—In this section, the term ‘OASDI trust  
13          fund surplus’ for a fiscal year means the dollar  
14          amount by which the Federal Old-Age and Survivors  
15          Insurance Trust Fund could be reduced as of the  
16          end of such fiscal year so as to result in an OASDI  
17          trust fund ratio (as defined in section 201(p)(4)) for  
18          such fiscal year equal to 125 percent.

19          “(4) RULE OF CONSTRUCTION.—This section  
20          shall not be construed to require redemption of obli-  
21          gations of the Trust Fund for the purpose of mak-  
22          ing transfers to the Transition Fund under this sec-  
23          tion or for any other purpose other than to provide  
24          for payment of benefits under part A of title II of  
25          the Social Security Act.

1       “(e) REDEMPTION OF OBLIGATIONS UPON DEPOSIT  
2 OF FUNDS.—Obligations issued under subsection (c) may  
3 be redeemed only by funds in the Transition Fund. The  
4 Board of Trustees shall provide for the redemption of such  
5 obligations as soon as possible with funds deposited into  
6 the Transition Fund pursuant to subsection (d).

7       “(f) SUNSET.—On the first date as of which all of  
8 the obligations issued under subsection (c) have been re-  
9 deemed, any balance remaining in the Transition Fund  
10 as of such date shall be deposited in the Federal Old-Age  
11 and Survivors Insurance Trust Fund, the terms of the  
12 Board of Trustees shall end, the Transition Fund shall  
13 cease to exist, and this section shall be repealed.”.

14 **SEC. 406. BUDGETARY TREATMENT OF SOCIAL SECURITY.**

15       (a) IN GENERAL.—Section 710 of the Social Security  
16 Act (42 U.S.C. 911) is amended to read as follows:

17       “BUDGETARY TREATMENT OF SOCIAL SECURITY

18       “SEC. 710.

19       “Notwithstanding any other provision of law and ex-  
20 cept as provided in subsection (b), the receipts and dis-  
21 bursements shall be treated in the same manner as section  
22 13301 of the Budget Enforcement Act of 1990.”.

23       (b) EFFECTIVE DATE.—The amendments made by  
24 this section shall apply with respect to fiscal years begin-  
25 ning on or after October 1, 2011.

1 **SEC. 407. ACCOUNTING FOR THE OLD-AGE, SURVIVORS,**  
2 **AND DISABILITY INSURANCE PROGRAM AND**  
3 **THE PERSONAL SOCIAL SECURITY SAVINGS**  
4 **PROGRAM.**

5 Title VII of the Social Security Act is amended by  
6 inserting after section 705 (42 U.S.C. 906) the following  
7 new section:

8 “ACCOUNTING FOR THE OLD-AGE, SURVIVORS, AND DIS-  
9 ABILITY INSURANCE PROGRAM AND THE PERSONAL  
10 SOCIAL SECURITY SAVINGS PROGRAM

11 “Social Security Lockbox Budget

12 “SEC. 706. (a) At the time of the transmittal to the  
13 Congress by the President of the budget of the United  
14 States Government, the President shall transmit to each  
15 House of the Congress a separate report (to be known as  
16 the ‘Social Security Lockbox Budget’) detailing the per-  
17 formance during the preceding fiscal year of each of the  
18 accounts established under subsection (b). Such report  
19 shall set forth, as determined as of the end of the year—

20 “(1) the amount of the balance of each account,

21 “(2) the amount of the total charges and the  
22 amount of the total credits to each account for the  
23 year, and

24 “(3) the amount of the total for the year of  
25 each category of charges and credits itemized in sub-  
26 section (b).



1           “(B) all receipts during the year by the Federal  
2           Old-Age and Survivors Insurance Trust Fund and  
3           the Federal Disability Insurance Trust Fund under  
4           section 121(e) of the Social Security Amendments of  
5           1983 (relating to appropriation of amounts equiva-  
6           lent to taxes on social security benefits) (42 U.S.C.  
7           401 note).

8           “(2) For each fiscal year, the Social Security Part  
9           A Account shall be charged with the sum of—

10           “(A) all benefits paid during the year from the  
11           Federal Old-Age and Survivors Insurance Trust  
12           Fund and the Federal Disability Insurance Trust  
13           Fund under part A of title II of the Social Security  
14           Act,

15           “(B) all redirected social security contributions  
16           transferred during the year to the Social Security  
17           Personal Savings Fund under section 252(b),

18           “(C) all other expenditures during the year  
19           from the Trust Funds under part A of title II (ex-  
20           cluding amounts expended as transfers by either  
21           such Trust Fund to the other such Trust Fund and  
22           amounts paid for the purchase of notes and obliga-  
23           tions under section 201(d)), and

24           “(D) all transfers from the Federal Old-Age  
25           and Survivors Insurance Trust Fund to the Self-Liq-



1 any net decrease in the Tier II Investment Fund at-  
2 tributable to investment for the fiscal year, and the  
3 total amount of any net decreases in Tier III Invest-  
4 ment Options attributable to investment for the fis-  
5 cal year, and

6 “(C) annuity payments made during the year  
7 under section 258 from the Annuity Reserve Ac-  
8 count in the Savings Fund.

9 “Charges and Credits to the Self-Liquidating Social  
10 Security Transition Fund Account

11 “(e)(1) For each fiscal year, the Self-Liquidating So-  
12 cial Security Transition Account shall be credited with—

13 “(A) all transfers to the Transition Fund from  
14 the Federal Old-Age and Survivors Insurance Trust  
15 Fund under section 262(b), and

16 “(B) all amounts expended during the fiscal  
17 year from the Trust Funds in the redemption under  
18 section 262(e) of obligations issued by the Transi-  
19 tion fund under section 262(c).

20 “(2) For each fiscal year, the Self-Liquidating Social  
21 Security Transition Fund Account shall be charged with  
22 the total amount of obligations issued during the fiscal  
23 year by the Transition Fund under section 262(c)”.

1 **SEC. 408. PROGRESSIVE INDEXING OF BENEFITS FOR OLD-**  
2 **AGE, WIFE'S, AND HUSBAND'S INSURANCE**  
3 **BENEFITS.**

4 (a) IN GENERAL.—Section 215(a) of the Social Secu-  
5 rity Act (42 U.S.C. 415(a)) is amended—

6 (1) by striking “The” in paragraph (1)(A) and  
7 inserting “In the case of any benefit other than an  
8 applicable benefit to which paragraph (2) applies,  
9 the”, and

10 (2) by redesignating paragraphs (2) through  
11 (7) as paragraphs (3) through (8), respectively, and  
12 by inserting after paragraph (1) the following new  
13 paragraph:

14 “(2)(A) In the case of an applicable benefit with re-  
15 spect to any individual who initially becomes eligible for  
16 old-age insurance benefits or who dies (before becoming  
17 eligible for such benefits) in calendar year 2017 or later,  
18 the primary insurance amount of the individual shall be  
19 equal to the sum of—

20 “(i) 90 percent of the individual’s average in-  
21 dexed monthly earning (determined under subsection  
22 (b)) to the extent that such earnings do not exceed  
23 the amount established for purposes of paragraph  
24 (1)(A)(i) by paragraph (1)(B);

25 “(ii) 32 percent of the individual’s average in-  
26 dexed monthly earnings to the extent that such



1 earnings exceed the amount established for purposes  
2 of paragraph (1)(A)(i) by paragraph (1)(B) but do  
3 not exceed the amount established for purposes of  
4 this clause by subparagraph (B);

5 “(iii) 32 percent (reduced as provided in sub-  
6 paragraph (C)) of the individual’s average indexed  
7 monthly earnings to the extent that such earnings  
8 exceed the amount established for purposes of clause  
9 (ii) but do not exceed the amount established for  
10 purposes of paragraph (1)(A)(ii) by paragraph  
11 (1)(B); and

12 “(iv) 15 percent (reduced as provided in sub-  
13 paragraph (C)) of the individual’s average indexed  
14 monthly earnings to the extent that such earnings  
15 exceed the amount established for purposes of para-  
16 graph (1)(A)(ii) by paragraph (1)(B).

17 “(B)(i) For purposes of subparagraph (A)(ii), the  
18 amount established under this subparagraph for calendar  
19 year 2017 shall be the level of average indexed monthly  
20 earnings determined by the Chief Actuary of the Social  
21 Security Administration under clause (ii) as being at the  
22 30th percentile for the period of calendar years 2006  
23 through 2008.

1       “(ii) For purposes of clause (i), the average indexed  
2 monthly earnings for the period of calendar years 2006  
3 through 2008 shall be determined by—

4           “(I) determining the average indexed monthly  
5 earnings for each individual who initially became eli-  
6 gible for old-age insurance benefits or who died (be-  
7 fore becoming eligible for such benefits) during such  
8 period, except that in determining such average in-  
9 dexed monthly earnings under subsection (b), sub-  
10 section (b)(3)(A)(ii)(I) shall be applied by sub-  
11 stituting calendar year 2002 for the second calendar  
12 year described in such subsection; and

13           “(II) multiplying the amount determined for  
14 each individual under subclause (I) by the quotient  
15 obtained by dividing the national average wage index  
16 (as defined in section 209(k)(1)) for the calendar  
17 year 2015 by such index for the calendar year 2003.

18       “(iii) For purposes of subparagraph (A)(ii), the  
19 amount established under this subparagraph for any cal-  
20 endar year after 2017 shall be equal to the product of  
21 the amount in effect under clause (i) with respect to cal-  
22 endar year 2017 and the quotient obtained by dividing—

23           “(I) the national average wage index (as de-  
24 fined in section 209(k)(1)) for the second calendar

1 year preceding the calendar year for which the de-  
2 termination is being made, by

3 “(II) the national average wage index (as so de-  
4 fined) for 2015.

5 “(iv) The amount established under this subpara-  
6 graph for any calendar year shall be rounded to the near-  
7 est \$1, except that any amount so established which is  
8 a multiple of \$0.50 but not of \$1 shall be rounded to the  
9 next higher \$1.

10 “(C)(i) Except as provided in clause (ii), in the case  
11 of any calendar year after 2016, each of the percentages  
12 to which this subparagraph applies by reason of clauses  
13 (iii) or (iv) of subparagraph (A) shall be a percentage  
14 equal to such percentage multiplied by the quotient ob-  
15 tained by dividing—

16 “(I) the difference of the maximum CPI-in-  
17 dexed benefit amount for such year over the amount  
18 determined under this paragraph for an individual  
19 whose average indexed monthly earnings are equal  
20 to the amount established for purposes of subpara-  
21 graph (A)(ii) for such year, by

22 “(II) the difference of the maximum wage-in-  
23 dexed benefit amount for such year over the amount  
24 determined under this paragraph for an individual  
25 whose average indexed monthly earnings are equal

1 to the amount established for purposes of subpara-  
2 graph (A)(ii) for such year.

3 “(ii)(I) In the case of any calendar year which is a  
4 positive balance year, clause (i) shall not apply and each  
5 of the percentages to which this subparagraph applies by  
6 reason of clause (iii) or (iv) of subparagraph (B) shall be  
7 a percentage equal to the percentage determined under  
8 this subparagraph for the preceding year (determined  
9 after the application of this subparagraph).

10 “(II) In the case of any calendar year after a positive  
11 balance year which is not a positive balance year, this sub-  
12 paragraph shall be applied by substituting ‘the second cal-  
13 endar year preceding the most recent positive balance  
14 year’ for ‘2014’ each place it appears in clause (iv).

15 “(iii) For purposes of clause (i), the maximum wage-  
16 indexed benefit amount for any calendar year shall be  
17 equal to the amount determined under this paragraph (de-  
18 termined without regard to any reduction under this sub-  
19 paragraph) for an individual with wages paid in and self-  
20 employment income credited to each computation base  
21 year in an amount equal to the contribution and benefit  
22 base for each calendar year.

23 “(iv) For purposes of clause (i), the maximum CPI-  
24 indexed benefit amount for any calendar year shall be an

1 amount equal to the amount determined under clause (iii)  
2 for such year multiplied by a fraction—

3 “(I) the numerator of which is the ratio (round-  
4 ed to the nearest one-thousandth of 1 percent) of  
5 the Consumer Price Index for the second preceding  
6 year to such index for 2014; and

7 “(II) the denominator of which is the ratio  
8 (rounded to the nearest one-thousandth of 1 per-  
9 cent) of the national wage index (as defined in sec-  
10 tion 209(k)(1)) for the second year preceding such  
11 year to such index for 2014.

12 “(v)(I) For purposes of this subparagraph, a positive  
13 balance year is a calendar year following any calendar year  
14 after 2081 for which the Chief Actuary of the Social Secu-  
15 rity Administration certifies to the Secretary of the Treas-  
16 ury and the Congress that the combined balance ratio of  
17 the Federal Old-Age and Survivors Trust Fund and the  
18 Federal Disability Insurance Trust Fund is not less than  
19 100 percent for such year.

20 “(II) For purposes of subclause (I), the combined  
21 balance ratio of the Federal Old-Age and Survivors Trust  
22 Fund and the Federal Disability Insurance Trust Fund  
23 for any calendar year is the ratio of the combined balance  
24 of such Trust Funds as of the last day of such calendar  
25 year (reduced by any transfer made pursuant to section

1 201(o) in such calendar year) to the amount estimated  
2 by the Commissioner of Social Security under section  
3 201(l)(3)(B)(iii)(II) to be paid from such Trust Funds  
4 during the calendar year following such calendar year for  
5 all purposes authorized by section 201 (determined as if  
6 such following calendar year were a positive balance year).

7 “(D) For purposes of this paragraph, rules similar  
8 to the rules of subparagraphs (C) and (D) of paragraph  
9 (1) shall apply.

10 “(E) For purposes of this paragraph, the term ‘appli-  
11 cable benefit’ means any benefit under section 202 other  
12 than—

13 “(i) a child’s insurance benefit under section  
14 202(d) with respect to a child of an individual who  
15 has died;

16 “(ii) a widow’s insurance benefit under section  
17 202(e) with respect to a widow who has not attained  
18 age 60 and is under a disability (as defined in sec-  
19 tion 223(d)) which began before the end of the pe-  
20 riod specified in section 202(e)(4);

21 “(iii) a widower’s insurance benefit under sec-  
22 tion 202(f) with respect to a widower who has not  
23 attained age 60 and is under a disability (as defined  
24 in section 223(d)) which began before the end of the  
25 period specified in section 202(f)(4); and

1           “(iv) a mother’s and father’s insurance benefit  
2           under section 202(g).”.

3           (b) TREATMENT OF DISABLED BENEFICIARIES.—  
4           Section 215(a) of such Act (as amended by subsection (a))  
5           is amended further by adding at the end the following new  
6           paragraph:

7           “(9)(A) Notwithstanding the preceding provisions of  
8           this subsection, in the case of an individual who has or  
9           has had a period of disability and who initially becomes  
10          eligible for old-age insurance benefits or who dies (before  
11          becoming eligible for such benefits) in any calendar year  
12          in or after 2017, the primary insurance amount of such  
13          individual shall be the sum of—

14                 “(i) the amount determined under subpara-  
15                 graph (B); and

16                 “(ii) the product derived by multiplying—

17                         “(I) the excess of the amount determined  
18                         under subparagraph (C) over the amount deter-  
19                         mined under subparagraph (B), by

20                         “(II) the adjustment factor for such indi-  
21                         vidual determined under subparagraph (D).

22           “(B) The amount determined under this subpara-  
23           graph is the amount of such individual’s primary insur-  
24           ance amount as determined under this section without re-  
25           gard to this paragraph.

1       “(C) The amount determined under this subpara-  
2 graph is the amount of such individual’s primary insur-  
3 ance amount as determined under this section as in effect  
4 with respect to individuals becoming eligible for old-age  
5 or disability insurance benefits under section 202(a) on  
6 the date of the enactment of the Social Security Personal  
7 Savings Guarantee and Prosperity Act of 2009.

8       “(D) The adjustment factor determined under this  
9 subparagraph for any individual is the ratio (not greater  
10 than 1) of—

11           “(i) the total number of months during which  
12 such individual is under a disability (as defined in  
13 section 223(d)) during the period beginning on the  
14 date the individual attains age 22 and ending on the  
15 first day of such individual’s first month of eligibility  
16 for old-age insurance benefits under section 202(a)  
17 (or, if earlier, the month of such individual’s death),  
18 to

19           “(ii) the number of months during the period  
20 beginning on the date the individual attains age 22  
21 and ending on the first day of such individual’s first  
22 month of eligibility for old-age insurance benefits  
23 under section 202(a) (or, if earlier, the month of  
24 such individual’s death).”.

25       (c) CONFORMING AMENDMENTS.—



1           (1)       Subsections       (e)(2)(B)(i)(I)       and  
2       (f)(2)(B)(i)(I) of section 202 of the Social Security  
3       Act are each amended by inserting “or section  
4       215(a)(2)(B)(iii)” after “section 215(a)(1)(B)(i) and  
5       (ii)”.

6           (2) Section 203(a)(10) of such Act is amend-  
7       ed—

8           (A) in subparagraph (A)(i), by striking  
9       “215(a)(2)(B)(i)”       and       inserting  
10       “215(a)(3)(B)(i)”;

11          (B) in subparagraph (A)(ii), by striking  
12       “215(a)(2)(C)” and inserting “215(a)(3)(C)”;  
13       and

14          (C) in subparagraph (B)(ii), by striking  
15       “215(a)(2)” and inserting “215(a)(3)”.

16          (3) Section 209(k)(1) of such Act is amended  
17       by inserting “215(a)(2)(B), 215(a)(2)(C),” after  
18       “215(a)(1)(D),”.

19          (4) Section 215(a) of such Act is amended—

20          (A) in paragraph (4)(A), as redesignated  
21       by paragraph (2), by striking “paragraph (4)”  
22       and inserting “paragraph (5)”;

23          (B) in paragraph (4)(B), as redesignated  
24       by paragraph (2), by striking “paragraph  
25       (2)(A)” and inserting “paragraph (3)(A)”;

1 (C) in paragraph (5), as redesignated by  
2 paragraph (2), by striking “paragraph (3)(A)”  
3 and inserting “paragraph (4)(A)”;

4 (D) in paragraph (6)(A), as redesignated  
5 by paragraph (2), by striking “paragraph  
6 (4)(B)” and inserting “paragraph (5)(B)”;

7 (E) in paragraph (8)(B)(ii)(I), as redesignated  
8 by paragraph (2), by striking “paragraph  
9 (3)(B)” and inserting “paragraph (4)(B)”.

10 (5) Section 215(d)(3) of such Act is amended—

11 (A) by striking “paragraph (4)(B)(ii)” and  
12 inserting “paragraph (5)(B)(ii)”;

13 (B) by striking “subsection (a)(7)(C)” and  
14 inserting “subsection (a)(8)(C)”.

15 (6) Subsection 215(f) of such Act is amended—

16 (A) in paragraph (2)(B), by striking “sub-  
17 section (a)(4)(B)” and inserting “subsection  
18 (a)(5)(B)”;

19 (B) in paragraph (7), by striking “sub-  
20 section (a)(4)(B)” and inserting “subsection  
21 (a)(5)(B)”, and by striking “subsection (a)(6)”  
22 and inserting “subsection (a)(7)”;

23 (C) in paragraph (9)(A)—

24 (i) by striking “subsection (a)(7)(A)”  
25 and inserting “subsection (a)(8)(A)”;

1 (ii) by striking “subsection (a)(7)(C)”  
2 and inserting “subsection (a)(8)(C)”; and  
3 (D) in paragraph (9)(B), by striking “sub-  
4 section (a)(7)” each place it appears and insert-  
5 ing “subsection (a)(8)”.

6 **SEC. 409. ENHANCEMENTS TO PART A BENEFITS.**

7 (a) **CPI INDEXING IN PART A BENEFIT FORMULA.**—  
8 Section 215(a)(1)(B) of the Social Security Act (42  
9 U.S.C. 415(a)(1)(B)) is amended—

10 (1) by redesignating clause (iii) as clause (iv);

11 (2) in clause (ii), by inserting “and before  
12 2017” after “1979”;

13 (3) in clause (iv) (as so redesignated), by in-  
14 serting “or (iii)” after “clause (ii)”; and

15 (4) by inserting after clause (ii) the following  
16 new clause:

17 “(iii) For individuals who initially become eligible for  
18 old-age or disability insurance benefits, or who die (before  
19 becoming eligible for such benefits), in any calendar year  
20 after 2016, each of the amounts so established shall be  
21 equal to the product of the corresponding amount estab-  
22 lished with respect to the calendar year 2016 under clause  
23 (ii) of this subparagraph and the quotient obtained by di-  
24 viding—

1           “(I) the Consumer Price Index for the second  
2           calendar year preceding the calendar year for which  
3           the determination is made, by

4           “(II) the Consumer Price Index for 2014.

5 For purposes of this clause, the term ‘Consumer Price  
6 Index’ for a calendar year means the arithmetical mean  
7 of the Consumer Price Index (within the meaning of such  
8 term as used in subsection (i)) for the 12 months in such  
9 calendar year.”.

10           (b) ENHANCED PART A BENEFIT LEVELS FOR LOW  
11 EARNERS.—Section 215(a) of such Act (as amended by  
12 section 408) is amended by adding at the end the following  
13 new paragraph:

14           “(10)(A) In the case of any individual who initially  
15 becomes eligible for old-age or disability insurance bene-  
16 fits, or who dies (before becoming eligible for such bene-  
17 fits), in any calendar year after 2016 and whose average  
18 indexed monthly earnings is less than twice the 35-year  
19 low earner AIME for such calendar year, each primary  
20 insurance amount otherwise determined under paragraph  
21 (1) or (2) shall be the product of—

22           “(i) such primary insurance amount as so de-  
23           termined, and

24           “(ii) the applicable adjustment factor for such  
25           individual.

1 “(B) For purposes of this paragraph, the applicable  
 2 adjustment factor for an individual is 100 percent plus  
 3 the product of—

4 “(i) the applicable percentage for the calendar  
 5 year,

6 “(ii) the applicable AIME factor, and

7 “(iii) the applicable coverage factor.

8 “(C) For purposes of subparagraph (B)(i), the appli-  
 9 cable percentage for a calendar year is the percentage set  
 10 forth in connection with such calendar year in the fol-  
 11 lowing table:

<b>“If the calendar year is:</b>	<b>The percentage is:</b>
2017 .....	4.04
2018 .....	8.08
2019 .....	12.12
2020 .....	16.16
2021 .....	20.20
2022 .....	24.24
2023 .....	28.28
2024 .....	32.32
2025 .....	36.36
2026 or thereafter .....	40.40.

12 “(D) For purposes of subparagraph (B)(ii)—

13 “(i) in any case in which an individual’s aver-  
 14 age indexed monthly earnings is less than or equal  
 15 to the 30-year low earner AIME for the calendar  
 16 year referred to in subparagraph (A), the applicable  
 17 AIME factor in connection with the individual for  
 18 the calendar year is 1,

19 “(ii) in any case in which an individual’s AIME  
 20 is greater than the 30-year low earner AIME for the

1 calendar year referred to in subparagraph (A) and  
2 less than twice the 35-year low earner AIME for the  
3 calendar year, the applicable AIME factor in connec-  
4 tion with the individual for the calendar year is the  
5 quotient derived by dividing—

6 “(I) the excess of twice the 35-year low  
7 earner AIME for the calendar year over the in-  
8 dividual’s average indexed monthly earnings, by

9 “(II) the excess of twice the 35-year low  
10 earner AIME for the calendar year over the 30-  
11 year low earner AIME for the calendar year,  
12 and

13 “(iii) in any case in which an individual’s aver-  
14 age indexed monthly earnings is greater than or  
15 equal to twice the 35-year low earner AIME for the  
16 calendar year referred to in subparagraph (A), the  
17 applicable AIME factor in connection with an indi-  
18 vidual for the calendar year is 0.

19 “(E) For purposes of subparagraph (B)(iii)—

20 “(i) in any case in which the number of an indi-  
21 vidual’s quarters of coverage earned prior to the  
22 date on which the individual became eligible or died  
23 as described in subparagraph (A) is less than or  
24 equal to twice the number of elapsed years with re-

1       spect to the individual, the applicable coverage factor  
2       in connection with the individual is 0,

3           “(ii) in any case in which the number of an in-  
4       dividual’s quarters of coverage earned prior to the  
5       date on which the individual became eligible or died  
6       as described in subparagraph (A) is greater than  
7       twice the number of elapsed years with respect to  
8       the individual and less than three times the number  
9       of elapsed years with respect to the individual, the  
10      applicable coverage factor in connection with the in-  
11      dividual is 1 plus the quotient derived by dividing—

12           “(I) the excess of the number of the indi-  
13      vidual’s quarters of coverage over 3 times the  
14      number of elapsed years with respect to the in-  
15      dividual, by

16           “(II) the number of elapsed years with re-  
17      spect to the individual, and

18           “(iii) in any case in which the number of an in-  
19      dividual’s quarters of coverage earned prior to the  
20      date on which the individual became eligible or died  
21      as described in subparagraph (A) is greater than or  
22      equal to 3 times the number of elapsed years with  
23      respect to the individual, the applicable coverage fac-  
24      tor in connection with the individual is 1.

25      “(F) For purposes of this paragraph—

1           “(i) The term ‘30-year low earner AIME’ for a  
2 calendar year means the amount which would be the  
3 average indexed monthly earnings of an individual—

4                   “(I) whose benefit computation years are  
5 the preceding 30 calendar years, and

6                   “(II) whose primary insurance amount is  
7 based solely on wages earned during such cal-  
8 endar years for 40 hours per week at an hourly  
9 rate equivalent to the minimum wage required  
10 under section 6 of the Fair Labor Standards  
11 Act of 1938 (29 U.S.C. 206) at the time such  
12 wages were earned.

13           “(ii) The term ‘35-year low earner AIME’ for  
14 a calendar year means the amount which would be  
15 the average indexed monthly earnings of an indi-  
16 vidual—

17                   “(I) whose benefit computation years are  
18 the preceding 35 calendar years, and

19                   “(II) whose primary insurance amount is  
20 based solely on wages earned during such cal-  
21 endar years for 40 hours per week at an hourly  
22 rate equivalent to the minimum wage required  
23 under section 6 of the Fair Labor Standards  
24 Act of 1938 (29 U.S.C. 206) at the time such  
25 wages were earned.





1           (2) Section 911(f)(2) of such Code is amended  
2           to read as follows:

3           “(2) the tentative minimum tax under section  
4           55 for the taxable year shall be zero.”.

5           (c) EFFECTIVE DATE.—The amendments made by  
6           this section shall apply to taxable years beginning after  
7           December 31, 2009.

8           **SEC. 503. SIMPLIFIED INCOME TAX SYSTEM.**

9           (a) IN GENERAL.—Part I of subchapter A of chapter  
10          1 of the Internal Revenue Code of 1986 (relating to tax  
11          on individuals) is amended by redesignating section 5 as  
12          section 6 and by inserting after section 4 the following  
13          new section:

14          **“SEC. 5. SIMPLIFIED INCOME TAX SYSTEM.**

15                 “(a) ELECTION.—

16                         “(1) IN GENERAL.—A taxpayer other than a  
17                         corporation may elect in accordance with this sub-  
18                         section to be subject to the tax imposed by this sec-  
19                         tion in lieu of the tax imposed by section 1 for a tax-  
20                         able year and all subsequent taxable years.

21                         “(2) EFFECT OF ELECTION.—For purposes of  
22                         this title, if an election is in effect under paragraph  
23                         (1) for any taxable year, the tax imposed by this sec-  
24                         tion shall be treated as the tax imposed by section  
25                         1 for the taxable year and, except as provided by

1 sections 31 and 36, no amount shall be allowed as  
2 a credit against such tax for the taxable year.

3 “(3) ELECTION.—

4 “(A) IN GENERAL.—

5 “(i) IN GENERAL.—Except as pro-  
6 vided in clause (ii) of this subparagraph  
7 and clauses (ii) and (iii) of subparagraph  
8 (B), the election under paragraph (1) may  
9 only be made with respect to any taxable  
10 year beginning before January 1, 2019, on  
11 a timely filed return for the first taxable  
12 year for which the election applies.

13 “(ii) NEW TAXPAYERS.—In the case  
14 of an individual with no tax liability under  
15 this title before January 1, 2019, the elec-  
16 tion under paragraph (1) may only be  
17 made for the first taxable year beginning  
18 after December 31, 2018, for which such  
19 individual has tax liability under this title.

20 “(B) EFFECT OF ELECTION.—

21 “(i) IN GENERAL.—Except as pro-  
22 vided in clauses (ii) and (iii), the election  
23 under paragraph (1), once made, shall be  
24 irrevocable.

1           “(ii) ONE-TIME REVOCATION OF  
2           ELECTION.—A taxpayer may revoke an  
3           election under paragraph (1) for a taxable  
4           year and all subsequent taxable years. The  
5           preceding sentence shall not apply if the  
6           taxpayer has made a revocation under such  
7           sentence for any prior taxable year.

8           “(iii) FILING STATUS CHANGES DUE  
9           TO MAJOR LIFE EVENTS.—In the case of  
10          any major life event described in clause  
11          (iv), a taxpayer may make an election  
12          under paragraph (1) or revoke such an  
13          election under clause (ii). Any such election  
14          or revocation shall apply for the taxable  
15          year for which made and all subsequent  
16          taxable years until the taxpayer makes an  
17          election under the preceding sentence for  
18          any subsequent (and all succeeding) tax-  
19          able year.

20          “(iv) MAJOR LIFE EVENT.—For pur-  
21          poses of clause (iii), a major life event de-  
22          scribed in this clause is marriage, divorce,  
23          and death.

24          “(b) TAX IMPOSED.—

1           “(1) MARRIED INDIVIDUALS AND SURVIVING  
 2 SPOUSES.—In the case of a taxpayer for whom an  
 3 election under subsection (a) is in effect and who is  
 4 a married individual (as defined in section 7703)  
 5 who makes a single return jointly with his spouse  
 6 under section 6013 or a surviving spouse (as defined  
 7 in section 2(a)), there is hereby imposed on the al-  
 8 ternative taxable income of such individual a tax de-  
 9 termined in accordance with the following table:

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$100,000 .....	10% of alternative taxable income.
Over \$100,000 .....	\$10,000, plus 25% of the excess over \$100,000.

10           “(2) UNMARRIED INDIVIDUALS (OTHER THAN  
 11 SURVIVING SPOUSES).—In the case of a taxpayer for  
 12 whom an election under subsection (a) is in effect  
 13 and who is not described in paragraph (1), there is  
 14 hereby imposed on the alternative taxable income of  
 15 such individual a tax determined in accordance with  
 16 the following table:

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$50,000 .....	10% of alternative taxable income.
Over \$50,000 .....	\$5,000, plus 25% of the excess over \$50,000.

17           “(c) ALTERNATIVE TAXABLE INCOME.—For pur-  
 18 poses of this section—

19           “(1) IN GENERAL.—The term ‘alternative tax-  
 20 able income’ means—

21           “(A) gross income,

1           “(B) the amount excluded from income  
2           under section 139C for capital gains, dividends,  
3           and interest, minus

4           “(C) the sum of—

5                   “(i) the personal exemption,

6                   “(ii) the dependent allowance, plus

7                   “(iii) the alternative standard deduc-  
8           tion.

9           “(2) PERSONAL EXEMPTION.—The personal ex-  
10          emption is—

11                   “(A) 200 percent of the dollar amount in  
12                  effect under subparagraph (B) in the case of—

13                           “(i) a joint return, or

14                           “(ii) a surviving spouse (as defined in  
15                  section 2(a)), and

16                   “(B) \$3,500 in the case of an individual—

17                           “(i) who is not married and is not a  
18                  surviving spouse, or

19                           “(ii) who is a married individual filing  
20                  a separate return.

21           “(3) DEPENDENT ALLOWANCE.—The depend-  
22          ent allowance is \$3,500 for each dependent (as de-  
23          fined in section 152).

24           “(4) ALTERNATIVE STANDARD DEDUCTION.—

25          The alternative standard deduction means—

1 “(A) \$25,000 in the case of—

2 “(i) a joint return, or

3 “(ii) a surviving spouse (as defined in  
4 section 2(a)), and

5 “(B) \$12,500 in the case of an indi-  
6 vidual—

7 “(i) who is not married and is not a  
8 surviving spouse, or

9 “(ii) who is a married individual filing  
10 a separate return.

11 “(d) INFLATION ADJUSTMENTS.—

12 “(1) IN GENERAL.—In the case of any taxable  
13 year beginning in a calendar year after 2009, each  
14 of the dollar amounts for the rate brackets in sub-  
15 section (b) and each of the dollar amounts in sub-  
16 section (d)(2)(B), (d)(3), and (d)(4) shall be in-  
17 creased by an amount equal to—

18 “(A) such dollar amount, multiplied by

19 “(B) the cost-of-living adjustment deter-  
20 mined under section 1(f)(3) for the calendar  
21 year in which the taxable year begins, by sub-  
22 stituting ‘calendar year 2008’ for ‘calendar year  
23 1992’ in subparagraph (B) thereof.

24 “(2) ROUNDING.—If any amount as adjusted  
25 under clause (i) is not a multiple of \$100, such

1 amount shall be rounded to the nearest multiple of  
2 \$100.”.

3 (b) CONFORMING AMENDMENT.—The table of sec-  
4 tions for part I of subchapter A of chapter 1 of such Code  
5 is amended by striking the item relating to section 5 and  
6 inserting after the item relating to section 4 the following:

“Sec. 5. Simplified income tax System.

“Sec. 6. Cross references relating to tax on individuals.”.

7 (c) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to taxable years beginning after  
9 December 31, 2009.

10 **SEC. 504. EXCLUSION FOR CAPITAL GAINS, DIVIDENDS,**  
11 **AND INTEREST.**

12 (a) IN GENERAL.—Part III of subchapter B of chap-  
13 ter 1 of the Internal Revenue Code of 1986 (relating to  
14 items specifically excluded from gross income) is amended  
15 by inserting after section 139C the following new section:

16 **“SEC. 139D. CAPITAL GAINS, DIVIDENDS, AND INTEREST.**

17 “(a) EXCLUSION.—Gross income does not include  
18 amounts received by an individual as net capital gains,  
19 qualified dividends, and interest.

20 “(b) QUALIFIED DIVIDENDS.—For purposes of this  
21 section—

22 “(1) IN GENERAL.—The term ‘qualified divi-  
23 dends’ means dividends received during the taxable  
24 year from—



1           “(A) domestic corporations, and

2           “(B) qualified foreign corporations.

3           “(2) QUALIFIED FOREIGN CORPORATIONS.—

4           “(A) IN GENERAL.—Except as otherwise  
5 provided in this paragraph, the term ‘qualified  
6 foreign corporation’ means any foreign corpora-  
7 tion if—

8                   “(i) such corporation is incorporated  
9 in a possession of the United States, or

10                   “(ii) such corporation is eligible for  
11 benefits of a comprehensive income tax  
12 treaty with the United States which the  
13 Secretary determines is satisfactory for  
14 purposes of this paragraph and which in-  
15 cludes an exchange of information pro-  
16 gram.

17           “(B) DIVIDENDS ON STOCK READILY  
18 TRADABLE ON UNITED STATES SECURITIES  
19 MARKET.—A foreign corporation not otherwise  
20 treated as a qualified foreign corporation under  
21 subparagraph (A) shall be so treated with re-  
22 spect to any dividend paid by such corporation  
23 if the stock with respect to which such dividend  
24 is paid is readily tradable on an established se-  
25 curities market in the United States.

1           “(C) EXCLUSION OF DIVIDENDS OF CER-  
2           TAIN FOREIGN CORPORATIONS.—Such term  
3           shall not include any foreign corporation which  
4           for the taxable year of the corporation in which  
5           the dividend was paid, or the preceding taxable  
6           year, is a passive foreign investment company  
7           (as defined in section 1297).

8           “(3) SPECIAL RULE.—If a taxpayer to whom  
9           this section applies receives, with respect to any  
10          share of stock, qualified dividend income from 1 or  
11          more dividends which are extraordinary dividends  
12          (within the meaning of section 1059(c)), any loss on  
13          the sale or exchange of such share shall, to the ex-  
14          tent of such dividends, be treated as long-term cap-  
15          ital loss.

16          “(c) INTEREST.—For purposes of this section, the  
17          term ‘interest’ means—

18                 “(1) interest on deposits with a bank (as de-  
19                 fined in section 581),

20                 “(2) amounts (whether or not designated as in-  
21                 terest) paid, in respect to deposits, investment cer-  
22                 tificates, or withdrawable or repurchasable shares,  
23                 by—

24                         “(A) a mutual savings bank, cooperative  
25                         bank, domestic building and loan association,

1 industrial loan association or bank, or credit  
2 union, or

3 “(B) any other savings or thrift institu-  
4 tion, which is chartered and supervised under  
5 Federal or State law,

6 the deposits or accounts in which are insured under  
7 Federal or State law or which are protected and  
8 guaranteed under State law,

9 “(3) interest on—

10 “(A) evidences of indebtedness (including  
11 bonds, debentures, notes, and certificates)  
12 issued by a domestic corporation in registered  
13 form, and

14 “(B) to the extent provided in regulations  
15 prescribed by the Secretary, other evidences of  
16 indebtedness issued by a domestic corporation  
17 of a type offered by corporations to the public,

18 “(4) interest on obligations of the United  
19 States, a State, or a political subdivision of a State  
20 (not excluded from gross income of the taxpayer  
21 under any other provision of law), and

22 “(5) interest attributable to participation shares  
23 in a trust established and maintained by a corpora-  
24 tion established pursuant to Federal law.

1       “(d) CERTAIN NONRESIDENT ALIENS INELIGIBLE  
2 FOR EXCLUSION.—In the case of a nonresident alien indi-  
3 vidual, subsection (a) shall apply only—

4               “(1) in determining the tax imposed for the  
5 taxable year pursuant to section 871(b)(1) and only  
6 in respect to dividends and interest which are effec-  
7 tively connected with the conduct of a trade or busi-  
8 ness within the United States, or

9               “(2) in determining the tax imposed for the  
10 taxable year pursuant to section 877(b).”.

11       (b) CONFORMING AMENDMENT.—Section 1 of such  
12 Code is amended by striking subsection (h).

13       (c) CLERICAL AMENDMENT.—The table of sections  
14 for such part III is amended by inserting after the item  
15 relating to section 139C the following new item:

“Sec. 13DC. Capital gains, dividends, and interest.”.

16       (d) EFFECTIVE DATE.—The amendments made by  
17 this section shall apply to taxable years beginning after  
18 December 31, 2009.

19 **SEC. 505. REPEAL OF ESTATE AND GIFT TAXES.**

20       (a) IN GENERAL.—Subtitle B of the Internal Rev-  
21 enue Code of 1986 is hereby repealed.

22       (b) EFFECTIVE DATE.—The repeal made by sub-  
23 section (a) shall apply to the estates of decedents dying,  
24 and gifts made, and generation-skipping transfers after  
25 December 31, 2009.

1                   **TITLE VI—BUSINESS**  
 2                   **CONSUMPTION TAX**

3 **SEC. 601. SHORT TITLE.**

4           This title may be cited as the “Competitive American  
 5 Business Tax”.

6 **SEC. 602. REPEAL OF CORPORATE INCOME TAX; NEW TAX**  
 7                   **PAID BY CORPORATIONS AND OTHER BUSI-**  
 8                   **NESSES.**

9           (a) IN GENERAL.—Subtitle A of the Internal Rev-  
 10 enue Code of 1986 is amended by inserting after chapter  
 11 6 the following new chapter:

12           **“CHAPTER 7—BUSINESS CONSUMPTION**  
 13                   **TAX**

“SUBCHAPTER A. IMPOSITION OF TAX.

“SUBCHAPTER B. BASIC RULES FOR BUSINESS CONSUMPTION TAX.

“SUBCHAPTER C. CAPITAL CONTRIBUTIONS, MERGERS, ACQUISITIONS, AND  
 DISTRIBUTIONS.

“SUBCHAPTER D. ACCOUNTING METHOD RULES.

“SUBCHAPTER E. LAND AND RENTAL PROPERTY.

“SUBCHAPTER F. INSURANCE AND FINANCIAL PRODUCTS.

“SUBCHAPTER G. FINANCIAL INTERMEDIATION AND FINANCIAL INSTITUTIONS.

“SUBCHAPTER H. TAX-EXEMPT ORGANIZATIONS.

“SUBCHAPTER I. COOPERATIVES.

“SUBCHAPTER J. SOURCING RULES.

“SUBCHAPTER K. IMPORT TAX.

“SUBCHAPTER L. TRANSITION RULES.

“SUBCHAPTER M. RULES FOR ADMINISTRATION, CONSOLIDATED RETURNS.

“SUBCHAPTER N. DEFINITIONS AND RULES OF APPLICATION.

## 1           **“Subchapter A—Imposition of Tax**

“Sec. 1601. Imposition of tax.

“Sec. 1602. Taxable amount.

“Sec. 1603. Zero rating for exports and interest.

“Sec. 1604. Governmental entities.

“Sec. 1605. Exempt organizations.

“Sec. 1606. Credit against tax.

### 2           **“SEC. 1601. IMPOSITION OF TAX.**

3           “(a) GENERAL RULE.—A tax is hereby imposed on  
4 each taxable transaction.

5           “(b) AMOUNT OF TAX.—Except as otherwise pro-  
6 vided in this chapter, the amount of the tax shall be 8.5  
7 percent of the taxable amount.

8           “(c) TAXABLE TRANSACTION.—For purposes of this  
9 chapter, the term ‘taxable transaction’ means—

10           “(1) the sale of property in the United States,

11           “(2) the performance of services in the United  
12 States, and

13           “(3) the importing of property into the United  
14 States,

15 by a taxable person in a business transaction.

16           “(d) BUSINESS TRANSACTION.—

17           “(1) GENERAL RULE.—For purposes of this  
18 chapter, the term ‘business transaction’ means a  
19 transaction engaged in by—

20           “(A) a corporation, or

21           “(B) any person (other than a corporation)

22           in connection with a business.

1           “(2) SALES AND LEASES OF REAL PROPERTY;  
2           IMPORTS.—For purposes of this chapter—

3           “(A) IN GENERAL.—The term ‘business  
4           transaction’ includes—

5                   “(i) any sale or leasing of real prop-  
6                   erty, and

7                   “(ii) any importing of property,  
8           whether or not such transaction is described in  
9           paragraph (1).

10           “(B) CERTAIN IMPORTED ARTICLES.—  
11           Notwithstanding subparagraph (A)(ii), the im-  
12           porting of an article which is free of duty under  
13           part 2 of schedule 8 of the Tariff Schedules of  
14           the United States shall not be treated as a busi-  
15           ness transaction unless such transaction is de-  
16           scribed in paragraph (1).

17           “(e) TAXABLE PERSON.—

18                   “(1) GENERAL RULE.—Except as otherwise  
19           provided in this chapter, for purposes of this chap-  
20           ter, the term ‘taxable person’ means a person who  
21           engages in a business or in a business transaction.

22                   “(2) TREATMENT OF EMPLOYEES, ETC.—For  
23           purposes of this chapter, an employee shall not be  
24           treated as a taxable person with respect to activities  
25           engaged in as an employee.

1 “(f) TRANSACTIONS IN THE UNITED STATES.—

2 “(1) SALES OF PROPERTY.—For purposes of  
3 this chapter—

4 “(A) IN GENERAL.—Except as provided in  
5 subparagraph (B), the sale of property shall be  
6 treated as occurring where delivery takes place.

7 “(B) REAL PROPERTY.—The sale of real  
8 property shall be treated as occurring where the  
9 real property is located.

10 “(2) PERFORMANCE OF SERVICE.—For pur-  
11 poses of this chapter—

12 “(A) IN GENERAL.—Except as otherwise  
13 provided in this paragraph, a service shall be  
14 treated as occurring where it is performed.

15 “(B) SERVICES PERFORMED INSIDE AND  
16 OUTSIDE THE UNITED STATES.—If a service is  
17 performed both inside and outside the United  
18 States, such service shall be treated as per-  
19 formed—

20 “(i) inside the United States, if 50  
21 percent or more of such service is per-  
22 formed inside the United States, and

23 “(ii) outside the United States, if less  
24 than 50 percent of such service is per-  
25 formed inside the United States.



1       “(g) RULES RELATING TO OTHER TERMS USED IN  
2 SUBSECTION (c).—

3           “(1) EXCHANGES TREATED AS SALES.—For  
4 purposes of this chapter—

5           “(A) an exchange of property for property  
6 or services shall be treated as a sale of prop-  
7 erty, and

8           “(B) an exchange of services for property  
9 or services shall be treated as the performance  
10 of services.

11          “(2) CERTAIN TRANSFERS TO EMPLOYEES  
12 TREATED AS SALES.—For purposes of this chapter,  
13 the transfer of property to an employee as com-  
14 pensation (other than a transfer of a type for which  
15 no amount is includible in the gross income of em-  
16 ployees for purposes of chapter 1) shall be treated  
17 as the sale of property.

18          “(3) PERFORMANCE OF SERVICES.—For pur-  
19 poses of this chapter—

20           “(A) CERTAIN ACTIVITIES TREATED AS  
21 PERFORMANCE OF SERVICES.—Activities treat-  
22 ed as included in the performance of services  
23 shall include (but shall not be limited to)—

24           “(i) permitting the use of property,

1           “(ii) the granting of a right to the  
2 performance of services or to reimburse-  
3 ment (including the granting of warranties,  
4 insurance, and similar items), and

5           “(iii) the making of a covenant not to  
6 compete (or similar agreement to refrain  
7 from doing something).

8           “(B) EMPLOYERS AND EMPLOYEES.—

9           “(i) SERVICES FOR EMPLOYER.—An  
10 employee’s services for the employee’s em-  
11 ployer shall not be treated as the perform-  
12 ance of services.

13           “(ii) SERVICES FOR EMPLOYEE.—An  
14 employer’s services for the employer’s em-  
15 ployee shall not be treated as the perform-  
16 ance of services unless such services are of  
17 a type which constitute gross income to the  
18 employee for purposes of chapter 1.

19           “(C) PERFORMANCE OF SERVICES TREAT-  
20 ED AS SALE OF SERVICES.—The performance of  
21 services shall be treated as the sale of services.

22 **“SEC. 1602. TAXABLE AMOUNT.**

23           “(a) AMOUNT CHARGED CUSTOMER.—For purposes  
24 of this chapter, the taxable amount for any transaction  
25 for which money is the only consideration shall be the

1 price charged the purchaser of the property or services by  
2 the seller thereof—

3 “(1) including all invoiced charges for transpor-  
4 tation, and other items payable to the seller with re-  
5 spect to this transaction, but

6 “(2) excluding the tax imposed by section 1601  
7 with respect to this transaction and excluding any  
8 State and local sales and use taxes with respect to  
9 this transaction.

10 “(b) EXCHANGES.—For purposes of this chapter, the  
11 taxable amount in any exchange of property or services  
12 shall be the fair market value of the property or services  
13 transferred by the person liable for the tax (determined  
14 as if such person had sold the property or services to the  
15 other party to the exchange).

16 “(c) IMPORTS.—For purposes of this chapter, the  
17 taxable amount in the case of any import shall be—

18 “(1) the customs value plus customs duties and  
19 any other duties which may be imposed, or

20 “(2) if there is no such customs value, the fair  
21 market value (determined as if the importer had sold  
22 the property).

23 **“SEC. 1603. ZERO RATING FOR EXPORTS AND INTEREST.**

24 “The rate of the tax imposed by section 1601 shall  
25 be zero with respect to the following:

1           “(1) EXPORTS.—Exports of property.

2           “(2) INTEREST.—Interest.

3   **“SEC. 1604. GOVERNMENTAL ENTITIES.**

4           “(a) ZERO RATING FOR SALES TO GOVERNMENTAL  
5 ENTITIES AND EDUCATIONAL ACTIVITIES OF GOVERN-  
6 MENTAL ENTITIES.—The rate of the tax imposed by sec-  
7 tion 1601 shall be zero with respect to the following:

8           “(1) SALES TO GOVERNMENTAL ENTITIES.—  
9           Any sale of property or services to a governmental  
10          entity.

11          “(2) EDUCATIONAL ACTIVITIES.—The providing  
12          by a governmental entity of property and services in  
13          connection with the education of students.

14          “(b) SALES, ETC., BY GOVERNMENTAL ENTITIES  
15 TAXABLE ONLY WHERE SEPARATE CHARGE IS MADE.—  
16 For purposes of this chapter, the sale of property and the  
17 performance of services by a governmental entity shall be  
18 a taxable transaction if (and only if) a separate charge  
19 of fee is made therefor.

20          “(c) GOVERNMENTAL ENTITY DEFINED.—For pur-  
21 poses of this chapter, the term ‘governmental entity’  
22 means the United States, any State or political subdivision  
23 thereof, the District of Columbia, a Commonwealth or pos-  
24 session of the United States, or any agency or instrumen-  
25 tality of any of the foregoing.

1 **“SEC. 1605. EXEMPT ORGANIZATIONS.**

2 “(a) ZERO RATING FOR SECTION 501(c)(3) ORGANI-  
3 ZATIONS; CREDIT ALLOWED FOR ALL PURCHASES.—

4 “(1) ZERO RATING.—The rate of the tax im-  
5 posed by section 1601 shall be zero with respect to  
6 any taxable transaction engaged in by a section  
7 501(c)(3) organization other than as part of an un-  
8 related business.

9 “(2) CREDIT ALLOWED FOR ALL PURCHASES.—  
10 For purposes of this chapter, a section 501(c)(3) or-  
11 ganization shall be treated as engaged in a business  
12 with respect to all of its activities.

13 “(b) TAXABLE TRANSACTIONS IN CASE OF OTHER  
14 EXEMPT ORGANIZATIONS.—For purposes of this chapter,  
15 the sale of property and the performance of services by  
16 any exempt organization other than a section 501(c)(3)  
17 organization shall be a taxable transaction if (and only  
18 if) a charge or fee is made for such services.

19 “(c) DEFINITIONS.—For purposes of this chapter—

20 “(1) SECTION 501(c)(3) ORGANIZATIONS.—The  
21 term ‘section 501(c)(3) organization’ means an orga-  
22 nization described in section 501(c)(3) which is ex-  
23 empt from tax under section 501(a).

24 “(2) OTHER EXEMPT ORGANIZATION.—The  
25 term ‘other exempt organization’ means any organi-

1 zation (other than a section 501(c)(3) organization)  
2 which is exempt from tax under chapter 1.

3 **“SEC. 1606. CREDIT AGAINST TAX.**

4 “(a) GENERAL RULE.—There shall be allowed as a  
5 credit against the tax imposed by section 1601 the aggre-  
6 gate amount of tax imposed by section 1601 which has  
7 been paid by sellers to the taxpayer of property and serv-  
8 ices which the taxpayer uses in the business to which the  
9 transaction relates.

10 “(b) EXEMPT TRANSACTIONS, ETC.—If—

11 “(1) property or services are used partly in the  
12 business and partly for other purposes, or

13 “(2) property or services are used partly for  
14 taxable transactions and partly for other trans-  
15 actions,

16 the credit shall be allowable only with respect to the prop-  
17 erty and services used for taxable transactions in the busi-  
18 ness. No credit shall be allowable for any transaction oc-  
19 ccurring when the taxpayer was a nontaxable person.

20 “(c) EXCESS CREDIT TREATED AS OVERPAYMENT.—

21 “(1) IN GENERAL.—If for any taxable period  
22 the aggregate amount of the credits allowable by  
23 subsection (a) exceeds the aggregate amount of the  
24 tax imposed by section 1601 for such period, such

1 excess shall be treated as an overpayment of the tax  
2 imposed by section 1601.

3 “(2) TIME WHEN OVERPAYMENT ARISES.—Any  
4 overpayment under paragraph (1) for any taxable  
5 period shall be treated as arising on the later of—

6 “(A) the due date for the return for such  
7 period, or

8 “(B) the date on which the return is filed.

9 **“Subchapter B—Basic Rules for Business**  
10 **Consumption Tax**

“Sec. 1611. Gross profits.

“Sec. 1612. Taxable receipts.

“Sec. 1613. Deductible amounts.

“Sec. 1614. Cost of business purchases.

“Sec. 1615. Business entity and business activity.

“Sec. 1616. Loss carryover deduction.

11 **“SEC. 1611. GROSS PROFITS.**

12 “‘Gross profits’ means for a taxable transaction of  
13 a business entity the amount by which—

14 “(1) the taxable receipts of the business entity  
15 with respect to the taxable transaction, exceed

16 “(2) the deductible amounts for the business  
17 entity with respect to the taxable transactions.

18 **“SEC. 1612. TAXABLE RECEIPTS.**

19 “(a) IN GENERAL.—‘Taxable receipts’ means all re-  
20 cepts from the sale of property, use of property, and per-  
21 formance of services in the United States.

1       “(b) GAMES OF CHANCE.—Amounts received for  
2 playing games of chance by business entities engaging in  
3 the activity of providing such games shall be treated as  
4 receipts from the sale of property or services.

5       “(c) IN-KIND RECEIPTS.—The taxable receipts at-  
6 tributable to the receipt of property, use of property or  
7 services in whole or partial exchange for property, use of  
8 property or services equal the fair market value of the  
9 services or property received.

10       “(d) TAXES.—Taxable receipts do not include any ex-  
11 cise tax, sales tax, custom duty, or other separately stated  
12 levy imposed by a Federal, State, or local government re-  
13 ceived by a business entity in connection with the sale of  
14 property or services or the use of property.

15       “(e) FINANCIAL RECEIPTS.—Except as provided in  
16 subchapter G (relating to financial intermediation and fi-  
17 nancial institutions), taxable receipts do not include finan-  
18 cial receipts (as defined by regulations by the Secretary).

19       **“SEC. 1613. DEDUCTIBLE AMOUNTS.**

20       “‘Deductible amounts’ for a business entity in a tax-  
21 able transaction include—

22               “(1) the cost of business purchases with respect  
23               to the taxable transaction (as determined under sec-  
24               tion 1614),



1           “(2) such entity’s loss carryover deduction (as  
2           determined under section 1616), and

3           “(3) the transition basis deduction (as deter-  
4           mined under section 1711).

5 **“SEC. 1614. COST OF BUSINESS PURCHASES.**

6           “(a) BUSINESS PURCHASES.—

7           “(1) IN GENERAL.—‘Business purchases’ means  
8           the acquisition of—

9                   “(A) property,

10                   “(B) the use of property, or

11                   “(C) services,

12           in the United States for use in a business activity.

13           “(2) EXAMPLES.—Business purchases include  
14           (without limitation) the—

15                   “(A) purchase or rental of real property,

16                   “(B) purchase or rental of capital equip-  
17           ment,

18                   “(C) purchase of supplies and inventory,

19                   “(D) purchase of services from inde-  
20           pendent contractors,

21                   “(E) purchase of financial intermediation  
22           services (as determined in accordance with sec-  
23           tion 1661),

24                   “(F) imports for use in a business activity,  
25           and

1           “(G) premiums for the cost of health in-  
2           surance policies for which the service provider,  
3           members of his family, or persons designated by  
4           him or members of his family are the bene-  
5           ficiaries.

6           “(3) EXCLUSIONS.—Business purchases do not  
7           include—

8                   “(A) payments for use of money or capital,  
9                   such as interest or dividends (except to the ex-  
10                  tent that a portion so paid is a fee for financial  
11                  intermediation services),

12                  “(B) premiums for life insurance,

13                  “(C) the acquisition of savings assets or  
14                  other financial instruments.

15                  “(D) property acquired outside the United  
16                  States (but such property shall be taken into  
17                  account as an import if imported),

18                  “(E) services performed outside the United  
19                  States (unless treated as imported into the  
20                  United States),

21                  “(F) compensation expenses for an indi-  
22                  vidual (other than amounts paid to an indi-  
23                  vidual in his capacity as a business entity), or

24                  “(G) taxes (except as provided in sub-  
25                  section (b)(2) relating to product taxes).

1           “(4) COMPENSATION EXPENSES.—‘Compensa-  
2           tion expenses’ means—

3                   “(A) wages, salaries or other cash payable  
4                   for services,

5                   “(B) any taxes imposed on the recipient  
6                   that are withheld by the business entity,

7                   “(C) the cost of property purchased to pro-  
8                   vide employees with compensation (other than  
9                   property incidental to the provision of fringe  
10                  benefits that are excluded from income under  
11                  the individual tax), and

12                  “(D) the cost of fringe benefits which are  
13                  includible in an employee’s, partner’s, or propri-  
14                  etor’s income under section 5 (or are excluded  
15                  solely because they constitute employee sav-  
16                  ings), including (without limitation)—

17                          “(i) contributions to retirement and  
18                          severance benefit plans,

19                          “(ii) premiums for the cost of life, ac-  
20                          cident, disability and other insurance poli-  
21                          cies for which the service provider, mem-  
22                          bers of his family, or persons designated  
23                          by him or members of his family are the  
24                          beneficiaries,

1                   “(iii) rental of parking spaces or park-  
2                   ing fees (unless the parking space is used  
3                   for a vehicle that is regularly used in a  
4                   business activity);

5                   “(iv) employer paid educational bene-  
6                   fits;

7                   “(v) employer paid housing (other  
8                   than housing provided for the convenience  
9                   of the employer); and

10                  “(vi) employer paid meals (other than  
11                  meals provided for the convenience of the  
12                  employer).

13                  “(b) COST OF BUSINESS PURCHASES.—

14                  “(1) IN GENERAL.—The ‘cost of a business  
15                  purchase’ is the amount paid or to be paid for the  
16                  business purchase.

17                  “(2) TAXES.—

18                  “(A) IN GENERAL.—The ‘cost of business  
19                  purchases’ includes any product taxes paid with  
20                  respect to the property or services purchased.

21                  “(B) PRODUCT TAX.—‘Product tax’ means  
22                  any excise tax, sales or use tax, custom duty, or  
23                  other separately stated levy imposed by a Fed-  
24                  eral, State, or local government on the produc-  
25                  tion, severance or consumption of property or

1 on the provision of services, whether or not sep-  
2 arately stated, and including any such taxes  
3 that are technically imposed on the seller of  
4 property or services.

5 “(C) TAXES NOT PRODUCT TAXES.—Prod-  
6 uct taxes do not include—

7 “(i) the import tax,

8 “(ii) state and local property taxes,

9 “(iii) franchise or income taxes,

10 “(iv) payroll taxes and self-employ-  
11 ment taxes, or

12 “(v) the business tax.

13 “(3) IMPORTS.—In the case of an import by a  
14 business entity, the cost of the import is the import  
15 price for purposes of the import tax. The import tax  
16 is not part of the cost of the import.

17 “(c) PROPERTY AND SERVICES ACQUIRED FOR  
18 PROPERTY.—If a business entity receives property or serv-  
19 ices from a business entity in whole or partial exchange  
20 for property or services, the property or services acquired  
21 shall be treated as if they were purchased for an amount  
22 equal to the fair market value of the services or property  
23 received. For purposes of this section, property includes  
24 stock and other equity interests in business other than

1 stock or an equity interest in the business entity acquiring  
2 the property or services.

3 “(d) GAMBLING PAYMENTS.—In the case of a busi-  
4 ness involving gambling, lotteries, or other games of  
5 chance, business purchases include amounts paid to win-  
6 ners.

7 “(e) SAVINGS ASSETS.—‘Savings assets’ means  
8 stocks, bonds, securities, certificates of deposits, invest-  
9 ments in partnerships and limited liability companies,  
10 shares of mutual funds, life insurance policies, annuities,  
11 and other similar savings or investment assets.

12 **“SEC. 1615. BUSINESS ENTITY AND BUSINESS ACTIVITY.**

13 “(a) BUSINESS ENTITY.—For purposes of the busi-  
14 ness tax, ‘business entity’ means any corporation, unincor-  
15 porated association, partnership, limited liability company,  
16 proprietorship, independent contractor, individual, or any  
17 other person engaging in business activity in the United  
18 States. An individual shall be considered a business entity  
19 only with respect to the individual’s business activities.

20 “(b) BUSINESS ACTIVITY.—‘Business activity’ means  
21 the sale of property or services, the leasing of property,  
22 the development of property or services for subsequent  
23 sale or use in producing property or services for subse-  
24 quent sale. ‘Business activity’ does not include casual or  
25 occasional sales of property used by an individual (other

1 than in a business activity), such as the sale by an indi-  
2 vidual of a vehicle used by the individual.

3 “(c) EXCEPTION FOR CERTAIN EMPLOYEES.—

4 “(1) IN GENERAL.—‘Business activity’ does not  
5 include—

6 “(A) the performance of services by an em-  
7 ployee for an employer that is a business entity  
8 with respect to the activity in which the em-  
9 ployee is engaged, or

10 “(B) the performance of regular domestic  
11 household services (including babysitting,  
12 housecleaning, and lawn cutting) by an em-  
13 ployee of an employer that is an individual or  
14 family.

15 “(2) EMPLOYEE DEFINED.—For purposes of  
16 this subsection, ‘employee’ includes an individual  
17 partner who provides services to a partnership or an  
18 individual member who provides services to a limited  
19 liability company, or a proprietor with respect to  
20 compensation for services from his proprietorship.

21 **“SEC. 1616. LOSS CARRYOVER DEDUCTION.**

22 “(a) DEDUCTION.—The ‘loss carryover deduction’ for  
23 a taxable period is the lesser of—

1           “(1) the business entity’s gross profits for the  
2 taxable period (determined without the loss carry-  
3 over deduction), or

4           “(2) the amount of the loss carryover to the  
5 taxable period.

6           “(b) LOSS CARRYOVER.—

7           “(1) GENERAL RULE.—A loss for any taxable  
8 period shall be a loss carryover to the succeeding  
9 taxable period.

10           “(2) LOSS CARRYOVERS TO A TAXABLE PE-  
11 RIOD.—The loss carryover to a taxable period is the  
12 sum of the loss carryovers from all prior taxable pe-  
13 riods beginning on or after January 1 of the year  
14 following the year in which this chapter is enacted.

15           “(3) REDUCTION OF LOSS CARRYOVERS AS A  
16 RESULT OF THE DEDUCTION.—A business entity’s  
17 loss carryovers shall be reduced each year by the  
18 amount of the loss carryover deduction for the year.  
19 Loss carryovers shall be reduced in the order that  
20 they arose.

21           “(c) LOSS FOR TAXABLE PERIOD.—A business enti-  
22 ty’s loss (if any) for the taxable period equals the excess  
23 (if any) of—

24           “(1) the sum of—



1           “(A) the cost of business purchases for the  
2 taxable period, and

3           “(B) the transition basis adjustment for  
4 the taxable period, over

5           “(2) taxable receipts for the taxable period.

6           “(d) SPECIAL RULES.—

7           “(1) CONSOLIDATED RETURNS.—In the case of  
8 a consolidated return, the loss for a taxable period  
9 shall be determined on a consolidated group basis.  
10 In the case of a deconsolidation, the loss carryovers  
11 from the consolidated group shall be allocated in ac-  
12 cordance with rules to be prescribed by the Sec-  
13 retary.

14           “(2) LOSS CARRYOVERS OF ACQUIRED BUSI-  
15 NESS ENTITY.—Any loss arising in the case of the  
16 acquisition of a business entity shall be allowed as  
17 prescribed by the Secretary.

18           “(e) INTEREST.—Interest shall be allowed on each  
19 loss carried forward under this section at a rate deter-  
20 mined by the Secretary of the Treasury.

21           **“Subchapter C—Capital Contributions,**  
22           **Mergers, Acquisitions, and Distributions**

“Sec. 1621. Contributions to a business entity.

“Sec. 1622. Distributions of property.

“Sec. 1623. Asset acquisitions.

“Sec. 1624. Mergers and stock acquisitions.

“Sec. 1625. Spin-offs, split-offs, etc.

“Sec. 1626. Allocation of certain tax attributes.

1 **“SEC. 1621. CONTRIBUTIONS TO A BUSINESS ENTITY.**

2 “(a) BY BUSINESS ENTITY.—

3 “(1) CASH.—If a business entity contributes  
4 cash to a business entity of which it is or becomes  
5 a partial or full owner, the amount contributed is  
6 not a deductible amount to the contributor or a tax-  
7 able receipt to the recipient.

8 “(2) PROPERTY OR SERVICES.—If a business  
9 entity contributes property or services to a business  
10 entity of which it is or becomes a partial or full  
11 owner, the transaction will not result in taxable re-  
12 cepts to the contributor or a deduction for a busi-  
13 ness purchase for the recipient and will not con-  
14 stitute a sale resulting in taxable receipts to the con-  
15 tributor.

16 “(b) BY INDIVIDUAL.—

17 “(1) CASH.—If an individual contributes cash  
18 to a business entity, the cash received is not a tax-  
19 able receipt.

20 “(2) NEW PROPERTY.—If an individual contrib-  
21 utes to a business entity property that the individual  
22 purchased for the business entity but which was not  
23 used by any person after its purchase, the property  
24 shall be considered purchased by such business enti-  
25 ty from the person from which the individual pur-  
26 chased the property.

1 “(3) PERSONAL USE PROPERTY.—

2 “(A) IN GENERAL.—If an individual con-  
3 tributes personal use property to a business en-  
4 tity in which the individual has an ownership  
5 interest or for which the individual receives an  
6 ownership interest, the business entity shall not  
7 be permitted to deduct the value of the property  
8 received as a business expense. The business  
9 entity will have a tax basis in the contributed  
10 property equal to the contributor’s basis.

11 “(B) PERSONAL USE PROPERTY.—‘Per-  
12 sonal use property’ means any property used by  
13 an individual at any time other than in a busi-  
14 ness activity.

15 “(4) SERVICES.—If an individual contributes  
16 services to a business entity in which the individual  
17 has an ownership interest or receives an ownership  
18 interest, the business entity shall not be permitted to  
19 deduct the value of the services received (or the  
20 value of the equity interest provided to the services  
21 provider).

22 **“SEC. 1622. DISTRIBUTIONS OF PROPERTY.**

23 “(a) DISTRIBUTIONS OTHER THAN TO CONTROL-  
24 LING BUSINESS.—If a business entity distributes all or a  
25 portion of its assets to its owners (other than a controlling

1 business entity), the business entity will be treated as if  
2 it sold the assets to its owners at fair market value. The  
3 fair market value will be determined by the distributing  
4 corporation and those determinations, unless unreason-  
5 able, will be binding on the recipients.

6       “(b) DISTRIBUTIONS TO A CONTROLLING BUSI-  
7 NESS.—If a business entity distributes all or a portion of  
8 its assets to a controlling business, the controlling busi-  
9 ness will assume the distributing entity’s tax attributes  
10 with respect to the assets and neither entity will have tax-  
11 able receipts or a deduction as a result of the transaction.

12       “(c) DISTRIBUTION OF PERSONAL USE PROP-  
13 ERTY.—If personal use property is distributed to the indi-  
14 vidual who contributed the personal use property to a busi-  
15 ness entity, the fair market value of the property for pur-  
16 poses of paragraph (a) shall equal the basis of the prop-  
17 erty plus any enhancement in value of the property attrib-  
18 utable to business purchases with respect to the property.

19       “(d) CONTROLLING BUSINESS ENTITY.—A business  
20 entity is a ‘controlling business entity’ with respect to an-  
21 other business entity if it owns directly or indirectly more  
22 than 50 percent of the profits or capital interest in the  
23 other business entity.

24       “(e) APPLICATION OF THIS SECTION.—This section  
25 applies to both liquidating and nonliquidating distribu-

1 tions. Property shall be treated as distributed if the prop-  
2 erty is used for a nonbusiness purpose for more than an  
3 insubstantial period of time during a taxable period.

4 **“SEC. 1623. ASSET ACQUISITIONS.**

5       “(a) IN GENERAL.—If a business entity transfers  
6 some or all of its assets, the consideration received for  
7 such assets shall be allocated among the assets transferred  
8 in the same manner as was required by section 1060. If  
9 the transferee and transferor agree in writing on the allo-  
10 cation of any consideration, or as to the fair market value  
11 of any of the assets, such agreement shall be binding on  
12 both the transferor and transferee unless the Secretary de-  
13 termines that such allocation (or fair market value) is not  
14 appropriate.

15       “(b) TAX CONSEQUENCES.—The tax consequences of  
16 an asset acquisition shall be determined in accordance  
17 with the rules of this chapter and shall be dependent upon  
18 allocations made under subsection (a). In general, consid-  
19 eration allocable to savings assets, such as stock in an-  
20 other business entity, would not be included in taxable re-  
21 ceipts of the transferor and would not be a business pur-  
22 chase of the purchaser, but consideration allocable to the  
23 sale of tangible property and intangible property (other  
24 than savings assets) will constitute taxable receipts of the  
25 seller and a business purchase of the purchaser.

1           “(c) ELECTION TO TREAT ASSET ACQUISITION AS A  
2 STOCK ACQUISITION.—In the case of the sale of substan-  
3 tially all of the assets of a business entity or substantially  
4 all of the assets of a line of business or a separately stand-  
5 ing business of a business entity, the transferee and trans-  
6 feror can jointly elect to treat the acquisition as if it were  
7 an acquisition of the stock of a business entity holding  
8 the assets so transferred. In such case, the rules of section  
9 1624 shall apply.

10           “(d) AUTHORITY TO REQUIRE ALLOCATION AGREE-  
11 MENT AND NOTICE TO THE SECRETARY.—If the Sec-  
12 retary determines that certain types of asset acquisitions  
13 have significant possibilities of tax avoidance, the Sec-  
14 retary may require—

15           “(1) parties to such types of acquisitions to  
16 enter into agreements allocating consideration,

17           “(2) parties to acquisitions involving certain  
18 kinds of assets to enter into agreements allocating  
19 part of the consideration to those assets, or

20           “(3) parties to certain acquisitions to report in-  
21 formation to the Secretary.

22           “(e) ASSET ACQUISITION RULES DO NOT APPLY IF  
23 CONSIDERATION INCLUDES EQUITY IN PURCHASER.—

24           “(1) IN GENERAL.—If a business entity issues  
25 its own equity or equity in a subsidiary or other con-

1 trolled entity as part of the consideration for the  
2 transfer of assets to it, the transaction shall not be  
3 treated as an asset acquisition and the rules of sec-  
4 tion 1624 shall apply.

5 “(2) EQUITY.—For purposes of this subsection,  
6 equity means—

7 “(A) stock, in the case of a corporation,

8 “(B) partnership or similar interest, in the  
9 case of a partnership or limited liability com-  
10 pany, and

11 “(C) an ownership interest or interest in  
12 profits in the case of any other business entity.

13 **“SEC. 1624. MERGERS AND STOCK ACQUISITIONS.**

14 “(a) MERGERS.—A merger of one business entity  
15 into another or two businesses entities into a third busi-  
16 ness entity or any other similar transaction shall have no  
17 direct consequences under the business tax. The surviving  
18 entity shall assume the tax attributes of the merged cor-  
19 porations, including any loss carryovers and credit  
20 carryovers.

21 “(b) STOCK ACQUISITION.—The acquisition of all or  
22 substantially all of the ownership interest in one business  
23 entity either for cash or in exchange for ownership in the  
24 acquiring entity or an entity controlled by the acquired

1 entity shall have no direct consequences under the busi-  
2 ness tax.

3 **“SEC. 1625. SPIN-OFFS, SPLIT-OFFS, ETC.**

4 “A spin-off, split-off or split-up of a business entity  
5 shall have no direct tax consequences under the business  
6 tax.

7 **“SEC. 1626. ALLOCATION OF CERTAIN TAX ATTRIBUTES.**

8 “The Secretary shall prescribe rules for allocation of  
9 loss carryovers in cases of substantial shifts of assets from  
10 one business entity to another business entity. Under such  
11 rules, a portion of a business entity’s carryovers may be  
12 deemed transferred when assets are transferred.

13 **“Subchapter D—Accounting Method Rules**

“Sec. 1631. General accounting rules.

“Sec. 1632. Use of the cash method of accounting.

“Sec. 1633. Long-term contracts.

“Sec. 1634. Post-sale price adjustments and refunds.

“Sec. 1635. Bad debts.

“Sec. 1636. Transition rules.

14 **“SEC. 1631. GENERAL ACCOUNTING RULES.**

15 “(a) IN GENERAL.—Except as provided in section  
16 1632, a business entity shall use an accrual method of  
17 accounting for purposes of determining the timing of rec-  
18 ognition of taxable receipts and deduction of business pur-  
19 chases. All business purchases shall be deducted when in-  
20 curred (in the case of a business entity using the accrual  
21 method of accounting) or when paid (in case of a business  
22 entity using the cash method of accounting) without re-



1 gard to whether the business purchases are for or relate  
2 to—

3 “(1) inventory,

4 “(2) assets with a useful life of more than one  
5 year, or

6 “(3) property that will be used to produce other  
7 property.

8 “(b) ECONOMIC PERFORMANCE.—For purposes of  
9 determining whether an amount has been incurred, the all  
10 events test shall not be treated as met any earlier than  
11 when economic performance with respect to such item oc-  
12 curs.

13 “(c) CONSISTENT ACCOUNTING METHODS.—Except  
14 as otherwise expressly provided in this chapter, a business  
15 entity shall secure the consent of the Secretary before  
16 changing the method of accounting by which it determines  
17 gross profits. This provision shall not apply to changes  
18 required by the adoption of the business tax.

19 **“SEC. 1632. USE OF THE CASH METHOD OF ACCOUNTING.**

20 “(a) IN GENERAL.—A business entity that was per-  
21 mitted to use and used the cash method of accounting  
22 under the Internal Revenue Code of 1986 shall be per-  
23 mitted to continue to use the cash method of accounting.

24 “(b) NEW BUSINESS ENTITIES.—A new business en-  
25 tity shall be permitted to use the cash method of account-

1 ing if permitted to under regulations prescribed by the  
2 Secretary.

3 “(c) CHANGE OR EXPANSION OF BUSINESS.—Sub-  
4 section (a) shall cease to apply to a business entity that  
5 changes or expands its business such that under regula-  
6 tions prescribed by the Secretary it is no longer eligible  
7 to use the cash method of accounting.

8 “(d) REGULATIONS.—

9 “(1) USE OF CASH METHOD.—The Secretary  
10 shall prescribe regulations defining which business  
11 entities may use the cash method of accounting. In  
12 general, those regulations shall be consistent with  
13 the rules under sections 447 and 448, except that all  
14 corporations shall be treated as C corporations were  
15 treated under those sections. The regulations shall  
16 not require a business entity described in subsection  
17 (a) to convert to the accrual method prior to Janu-  
18 ary 1, 2010.

19 “(2) CHANGE IN ACCOUNTING METHOD.—The  
20 Secretary shall prescribe regulations to prevent dou-  
21 ble counting of taxable receipts and deductible ex-  
22 penses in the case of a change in accounting method.

23 **“SEC. 1633. LONG-TERM CONTRACTS.**

24 “(a) IN GENERAL.—In the case of a long-term con-  
25 tract—

1           “(1) CONTRACTOR EXPENSES.—The contractor  
2 shall be entitled to deduct its business purchases  
3 when paid or incurred.

4           “(2) CONTRACTOR RECEIPTS.—The contractor  
5 shall recognize taxable receipts—

6           “(A) in the case of a project in which the  
7 acquirer has no ownership interest in the  
8 project until delivery—

9           “(i) upon delivery of the project, in  
10 the case of an accrual basis contractor, or

11           “(ii) upon the later of delivery of the  
12 project or the receipt of payment, in the  
13 case of cash-basis contractor.

14           “(B) in the case of a project in which the  
15 acquirer obtains an ownership interest as the  
16 project is constructed—

17           “(i) when the contractor has the right  
18 to payments, in the case of an accrual  
19 basis contractor, or

20           “(ii) upon the later of when the con-  
21 tractor receives the cash or has the right  
22 to payments, in the case of a cash basis  
23 contractor.

1           “(3) ACQUIRER EXPENSES.—The acquirer that  
2 is a business entity shall be entitled to deduct its  
3 costs of the business purchase—

4           “(A) in the case of a cash-basis acquirer,  
5 at such time as a cash basis contractor would  
6 be required to treat the amounts paid as tax-  
7 able receipts, or

8           “(B) in the case of an accrual-basis  
9 acquirer, at such time as an accrual basis con-  
10 tractor would be required to treat the amounts  
11 paid or due as taxable receipts.

12       “(b) RIGHT TO PAYMENTS.—

13           “(1) IN GENERAL.—A contractor shall be treat-  
14 ed as having a right to payments with respect to a  
15 project at any time to the extent that the contractor  
16 would not be required to return payments received  
17 (or would be entitled to collect payments not yet re-  
18 ceived) if the project were terminated at such time  
19 by the contractor.

20           “(2) CONTRACTUAL PROVISIONS.—If a long-  
21 term contract includes a procedure for paying the  
22 contractor as work is completed (for example, by  
23 reason of a draw down from a trust account), the  
24 contractual provisions shall generally govern when a  
25 contractor has a right to payment.

1           “(3) PERCENTAGE COMPLETION METHOD OF  
2 ACCOUNTING.—If a long-term contract does not in-  
3 clude a mechanism for paying the contractor as  
4 work is completed, the percentage-of-completion  
5 method of accounting shall be used to determine the  
6 timing of taxable receipts of the contractor and busi-  
7 ness purchases of the acquirer.

8           “(c) LONG-TERM CONTRACT.—

9           “(1) IN GENERAL.—‘Long-term contract’  
10 means—

11           “(A) any contract that covers service or  
12 production through parts of two different cal-  
13 endar years if the contract includes a formal  
14 deposit and draw-down mechanism, and

15           “(B) any contract for the manufacture,  
16 building, installation, or construction of prop-  
17 erty if such contract is not completed within the  
18 taxable period of the contractor in which such  
19 contract is entered into.

20           “(2) EXCEPTION.—A contract for the manufac-  
21 ture of property shall not be treated as a long-term  
22 contract unless such contract involves the manufac-  
23 ture of—



1       “(b) ISSUANCE OF PRICE ADJUSTMENT.—In the case  
2 of a post-sale price adjustment attributable to a sale the  
3 receipts from which were taken into account in deter-  
4 mining taxable receipts for a prior taxable transaction, the  
5 amount of such adjustment shall be treated as a reduction  
6 or increase, as the case may be, in taxable receipts for  
7 the taxable period in which the adjustment is made or in-  
8 curred.

9       “(c) POST-SALE PRICE ADJUSTMENT.—‘Post-sale  
10 price adjustment’ means a refund, rebate, or other price  
11 allowance attributable to a sale of property or services or  
12 an upward adjustment in price that was not previously  
13 taken into account under the business entity’s method of  
14 accounting.

15 **“SEC. 1635. BAD DEBTS.**

16       “(a) SELLER.—If an amount owed to an accrual  
17 basis business entity for property or services sold—

18               “(1) was taken into account as a taxable receipt  
19               in a prior taxable period, and

20               “(2) becomes wholly or partially uncollectible  
21               during the taxable period, then the seller shall treat  
22               the amount as a reduction in taxable receipts for the  
23               taxable period in which it becomes wholly or par-  
24               tially uncollectible.

1       “(b) NOTICE REQUIREMENT.—No reduction shall be  
2 allowed under subsection (a) unless the seller notifies the  
3 purchaser of the amount which the seller has treated as  
4 wholly or partially uncollectible.

5       “(c) SUBSEQUENT COLLECTION.—If an amount  
6 which was treated as uncollectible under subsection (a) is  
7 subsequently collected, it shall be treated as a taxable re-  
8 ceipt when collected.

9       “(d) PURCHASER.—If a purchaser receives notice  
10 under subsection (b) from a seller and the purchaser has  
11 treated the amount labeled uncollectible as a business pur-  
12 chase in a prior taxable period, then the purchaser shall  
13 treat such amount as a reduction in the cost of business  
14 purchases in the taxable period to which the notice relates.  
15 If the purchaser subsequently repays such amount, the re-  
16 payment shall constitute the cost of a business purchase.

17 **“SEC. 1636. TRANSITION RULES.**

18       “(a) NO DOUBLE DEDUCTIONS.—A business entity  
19 shall not be entitled to treat as a ‘cost of business pur-  
20 chase’ any amount that the business entity deducted in  
21 computing taxable income under the income tax in effect  
22 prior the effective date of the business tax.

23       “(b) NO DOUBLE INCLUSION.—A business entity  
24 shall not be required to include in taxable receipts any  
25 receipt that the business entity took into account in com-



1 putting taxable income under the income tax in effect prior  
2 to the effect date of the business tax.

3 “(c) NO LOSS OF DEDUCTION.—An expense which—

4 “(1) a business entity would have been able to  
5 deduct as a cost of a business purchase in an ac-  
6 counting period before the effective date of the busi-  
7 ness tax if the business tax had been in effect in  
8 such period, and

9 “(2) the business entity would have been able to  
10 deduct as an expense in computing taxable income  
11 in a period after the business tax is effective if the  
12 income tax had continued in effect, shall be treated  
13 as a cost of a business purchase incurred or paid at  
14 the time that it would have been paid or incurred  
15 under the income tax if the income tax had contin-  
16 ued in effect. This subsection shall not apply to any  
17 amount which is to be taken into account under sub-  
18 chapter N (relating to amortization of transition  
19 basis, inventory costs, and safe harbor leases), any  
20 amounts which would have been deducted under the  
21 income tax through loss carryover deductions, or any  
22 deductions deferred by the uniform capitalization  
23 rules under section 263A.

24 “(d) ALL TAXABLE RECEIPTS TAXED.—A receipt  
25 which—

1           “(1) a business entity would have been required  
 2           to treat as a taxable receipt in an accounting period  
 3           before the effective date of the business tax if the  
 4           business tax had been in effect in such period, and  
 5           “(2) the business entity would have been re-  
 6           quired to include in gross income in a period after  
 7           the business tax is effective if the income tax had  
 8           continued in effect  
 9           shall be treated as a taxable receipt at the time that it  
 10          would have been included in income if the income tax had  
 11          continued in effect.

## 12    **“Subchapter E—Land and Rental Property**

“Sec. 1641. No deduction for land purchased for nonbusiness use.

“Sec. 1642. Taxable receipts for land held for nonbusiness use.

“Sec. 1643. Certain rental property.

### 13    **“SEC. 1641. NO DEDUCTION FOR LAND PURCHASED FOR** 14                                   **NONBUSINESS USE.**

15          “(a) IN GENERAL.—The acquisition of unimproved  
 16          land shall not constitute a business purchase if the unim-  
 17          proved land is not acquired to be used in a business activ-  
 18          ity or if the land is acquired for—

19                 “(1) speculation,

20                 “(2) development (including subdivision),

21                 “(3) temporary leasing or other use not com-  
 22                 mensurate with the value of the land,

23                 “(4) indefinite future use in a business activity,

24                 or

1           “(5) use in compensating employees.

2           “(b) FUTURE USE IN BUSINESS ACTIVITY.—Unim-  
3 proved land will not be considered held for ‘indefinite fu-  
4 ture use in a business activity’ if promptly upon acquisi-  
5 tion, the purchaser or the lessee begins construction of im-  
6 provements on the land (other than improvements, such  
7 as paving or sewage lines, intended for indefinite future  
8 development) that will be used in a business activity. Such  
9 improvement must be commensurate with the value of the  
10 land.

11          “(c) UNIMPROVED LAND.—‘Unimproved land’  
12 means—

13           “(1) land with no buildings on it,

14           “(2) land with improvements if the value of the  
15 improvements is relatively small in comparison to  
16 the value of the land and it is anticipated that the  
17 improvements will be demolished and not used, and

18           “(3) land in excess of the amount reasonably  
19 needed for the buildings located on it.

20          “(d) CONVERSION TO BUSINESS USE.—If the acqui-  
21 sition of land is not treated as a business purchase by rea-  
22 son of subsection (a) and the land is subsequently used  
23 in a manner for which it could have been treated as a  
24 business purchase, the cost of the land will be treated as  
25 a business purchase when the improvements on the land

1 are placed in service (or in the case of construction for  
2 sale, substantially completed and advertised for sale).

3 **“SEC. 1642. TAXABLE RECEIPTS FROM SALE OF LAND HELD**  
4 **FOR NONBUSINESS USE.**

5 “(a) TAX BASIS.—A business entity shall have a tax  
6 basis in land equal to the cost of the land if such cost  
7 is not deductible by reason of section 1641(a) and the land  
8 has not been converted to business use for purposes of  
9 section 1641(d).

10 “(b) TAXABLE RECEIPTS OF A LAND SALE.—The  
11 taxable receipts from the sale of land (or portion thereof)  
12 in which a business entity has a tax basis by reason of  
13 subsection (a) shall be the amount by which the proceeds  
14 exceed the basis of such land (or portion thereof).

15 **“SEC. 1643. CERTAIN RENTAL PROPERTY.**

16 “(a) IN GENERAL.—Except as provided in subsection  
17 (b), the activity of rental of real estate is a business activ-  
18 ity to which the business tax applies.

19 “(b) RENTAL PROPERTY BECOMES NONRENTAL  
20 PROPERTY.—If property which is considered rental prop-  
21 erty for purposes of subsection (a) in one taxable period  
22 ceases to be rental property in the following taxable pe-  
23 riod, the property (and any associated debt) shall be treat-  
24 ed as distributed by the business entity to its owners. Sec-  
25 tion 1622(a) shall apply to such distribution.



1     **“Subchapter G—Financial Intermediation**  
 2                     **and Financial Institutions**

“Sec. 1661. Activities constituting a financial intermediation business.

“Sec. 1662. General rule for taxation.

“Sec. 1663. Special rule for banks.

“Sec. 1664. Insurance companies.

“Sec. 1665. Financial pass-through entities.

3     **“SEC. 1661. ACTIVITIES CONSTITUTING A FINANCIAL**  
 4                     **INTERMEDIATION BUSINESS.**

5             “(a) FINANCIAL INTERMEDIATION BUSINESS.—The  
 6 providing of financial intermediation services shall be con-  
 7 sidered a business activity. The gross profit of a business  
 8 entity providing financial intermediation services shall be  
 9 determined by taking into account the rules of this sub-  
 10 chapter.

11           “(b) SEPARATE BUSINESS ACTIVITY.—The provision  
 12 of financial intermediation services for unrelated persons  
 13 shall be considered a separate business activity and a busi-  
 14 ness shall be considered a separate entity with respect to  
 15 such activity. An entity engaging in such business is re-  
 16 ferred to in this chapter as a ‘financial intermediation  
 17 business’.

18           “(c) DEFINITIONS.—

19                     “(1) FINANCIAL INTERMEDIATION SERVICES.—

20           ‘Financial intermediation services’ include—

21                             “(A) lending services,

22                             “(B) insurance services,

1           “(C) market-making and dealer services,  
2           and

3           “(D) any other service provided as busi-  
4           ness activity in which a person acts as an inter-  
5           mediary in—

6                   “(i) the transfer of property, services,  
7                   or financial assets, liabilities, risks or in-  
8                   struments (or income or expense derived  
9                   therefrom) between two or more persons,  
10                  or

11                   “(ii) the pooling of economic risk  
12                  among other persons,  
13                  and derives all or a portion of such person’s  
14                  gross receipts from streams of income or ex-  
15                  pense, discounts, or other financial flows associ-  
16                  ated with the matter with respect to which such  
17                  person is acting as an intermediary.

18           “(2) LENDING SERVICES.—‘Lending services’  
19           means the regular making of loans and providing  
20           credit to, or taking deposits from customers, but  
21           does not include an installment or delayed payment  
22           arrangement provided by a seller of property or serv-  
23           ices under which additional charges or fees are im-  
24           posed by the seller for the late payment.

1           “(3) MARKET-MAKING OR DEALER SERVICES.—  
2           ‘Market-making or dealer services’ means services  
3           provided by a person who—

4                   “(A) regularly purchases financial instru-  
5                   ments from or sells financial instruments to  
6                   customers in the ordinary course of a trade or  
7                   business, and

8                   “(B) regularly offers to enter into, assume,  
9                   offset, assign, or otherwise terminate positions  
10                  in financial instruments with customers in the  
11                  ordinary course of a trade or business.

12 **“SEC. 1662. GENERAL RULE FOR TAXATION.**

13           “(a) IN GENERAL.—In the case of a financial inter-  
14           mediation business, gross profits shall be computed by—

15                   “(1) substituting financial receipts for taxable  
16                   receipts, and

17                   “(2) including financial expenses as business  
18                   purchases.

19           “(b) DEFINITIONS.—

20                   “(1) FINANCIAL RECEIPTS.—‘Financial re-  
21                   ceipts’ means all receipts other than amounts re-  
22                   ceived as contributions to capital.

23                   “(2) FINANCIAL EXPENSES.—‘Financial ex-  
24                   penses’ include—



1           “(A) payments for principal and interest  
2           that is properly allocable to the provision of fi-  
3           nancial intermediation services,

4           “(B) the cost of and payments under fi-  
5           nancial instruments (other than financial in-  
6           struments in the person subject to the tax im-  
7           posed under this chapter and any person re-  
8           lated to such person),

9           “(C) claims and cash surrender values paid  
10          in connection with insurance or reinsurance  
11          services, and

12          “(D) amounts paid for reinsurance.

13          “(3) FINANCIAL INSTRUMENT.—‘Financial in-  
14          strument’ means any—

15               “(A) share of stock in a corporation,

16               “(B) equity ownership in any widely held  
17               or publicly traded partnership, trust, or other  
18               business entity,

19               “(C) note, bond, debenture, or other evi-  
20               dence of indebtedness,

21               “(D) interest rate, currency, or equity no-  
22               tional principal contract,

23               “(E) evidence or interest in, or a derivative  
24               financial instrument in, any financial instru-  
25               ment described in subparagraph (A), (B), (C),

1 or (D), or any currency, including any option,  
2 forward contract, short position, and any simi-  
3 lar financial instrument in such a financial in-  
4 strument or currency, and

5 “(F) a position which—

6 “(i) is not a financial instrument de-  
7 scribed in subparagraph (A), (B), (C), (D)  
8 or (E),

9 “(ii) is a hedge with respect to such  
10 a financial instrument, and

11 “(iii) is clearly identified in the deal-  
12 er’s records as being described in this sub-  
13 paragraph before the close of the day on  
14 which it was acquired or entered into.

15 “(c) INTERNATIONAL MATTERS.—For purposes of  
16 this section in the case of a financial intermediation busi-  
17 ness with activity in and outside the United States—

18 “(1) INCLUSION REGARDLESS OF SOURCE.—

19 “(A) Financial receipts shall be determined  
20 without regard to whether they are received for  
21 property or service provided in or outside the  
22 United States, except that financial receipts do  
23 not include amounts that—

24 “(i) are not taxable receipts (as deter-  
25 mined without regard to this section), but

1                   “(ii) would have been taxable receipts  
2                   (as determined without regard to this sec-  
3                   tion) if they had been received for services  
4                   or property in the United States.

5                   “(B) Financial expenses shall be deter-  
6                   mined without regard to whether they are re-  
7                   ceived for property or services acquired in or  
8                   outside the United States.

9                   “(2) ALLOCATION.—Under regulations pre-  
10                  scribed by the Secretary, gross profits (as deter-  
11                  mined without regard to this paragraph) shall be re-  
12                  duced by the amount of financial intermediation  
13                  gross profit attributable to financial intermediation  
14                  activity provided outside the United States.

15                  “(3) GROSS PROFIT ATTRIBUTABLE TO FINAN-  
16                  CIAL INTERMEDIATION ACTIVITY.—‘Gross profits at-  
17                  tributable to financial intermediation activity’ means  
18                  the excess of—

19                         “(A) gross profits as determined under  
20                         this section (but without regard to paragraph  
21                         (2)), over

22                         “(B) gross profits as determined without  
23                         regard to this subchapter.

1 **“SEC. 1663. SPECIAL RULES FOR BANKS.**

2 “(a) IN GENERAL.—In the case of a bank, gross prof-  
3 its shall be determined in accordance with section 1662,  
4 except that—

5 “(1) FINANCIAL RECEIPTS.—Financial receipts  
6 shall include only—

7 “(A) taxable receipts (as determined with-  
8 out regard to this subchapter),

9 “(B) interest on loans made or acquired by  
10 the bank,

11 “(C) gain on the sale of loans,

12 “(D) discount points received, and

13 “(E) any explicit fees for financial or fidu-  
14 ciary services not included in subparagraphs  
15 (A) through (E).

16 “(2) FINANCIAL EXPENSES.—Financial ex-  
17 penses shall include only—

18 “(A) interest paid to depositors and on  
19 other funds borrowed by the bank, and

20 “(B) reasonable additions to reserves for  
21 bad debts.

22 “(3) FORECLOSURE PROPERTY.—Gross profits  
23 shall properly take into account proceeds from the  
24 operation or sale of foreclosure property.

25 “(b) BANK.—

1           “(1) IN GENERAL.—‘Bank’ means a bank or  
2           trust company incorporated and doing business  
3           under the laws of the United States, the District of  
4           Columbia, or any State, a substantial part of the  
5           business of which consists of receiving deposits and  
6           making loans and discounts, or of exercising fidu-  
7           ciary powers similar to those exercised by national  
8           banks under the authority of the Comptroller of the  
9           Currency, and which is subject by law to supervision  
10          and examination by State or Federal authority hav-  
11          ing supervision over banking institutions or credit  
12          unions. Such term includes domestic building and  
13          loan associations and credit unions.

14           “(2) OTHER ACTIVITIES.—If a bank is engaged  
15          in significant amounts of activities other than those  
16          described in paragraph (1), the bank shall be consid-  
17          ered as a separate business entity with respect to  
18          such other activity.

19          **“SEC. 1664. INSURANCE COMPANIES.**

20           “(a) IN GENERAL.—In the case of companies pro-  
21          viding insurance services, gross profits shall be determined  
22          in accordance with section 1662, except—

23           “(1) subsection (c) of section 1662 (relating to  
24          international operations) shall not apply, and

1           “(2) the rules of subchapter J (sourcing rules)  
2           shall apply to determine financial receipts and finan-  
3           cial expenses.

4           “(b) RESULT INCONSISTENT WITH STATUTORY IN-  
5 TENT.—If an insurance company determines that the ap-  
6 plication of subsection (a) produces results inconsistent  
7 with the territorial approach of the business tax, it may  
8 apply to the Secretary for permission to apply section  
9 1662(c) in lieu of subsection (a).

10 **“SEC. 1665. FINANCIAL PASS-THROUGH ENTITIES.**

11           “(a) IN GENERAL.—In the case of a financial pass-  
12 thru entity, gross profits shall be determined in accord-  
13 ance with section 1662, except—

14           “(1) financial receipts shall include contribu-  
15 tions to capital, and

16           “(2) financial expenses shall include—

17           “(A) distributions to persons holding inter-  
18 ests in the pass-thru entity, and

19           “(B) investments in related entities (in-  
20 cluding wholly owned entities) engaging in real  
21 estate investment.

22           “(b) PASS-THRU ENTITY.—‘Pass-thru entity’ means  
23 a business entity that is intended to serve as a conduit.  
24 The Secretary shall prescribe regulations defining pass-  
25 thru entity.

## 1   **“Subchapter H—Tax-Exempt Organizations**

“Sec. 1671. Exemption for governmental entities.

“Sec. 1672. Tax-exempt organizations.

“Sec. 1673. Tax on unrelated business activity.

“Sec. 1674. Unrelated business activity.

### 2   **“SEC. 1671. EXEMPTION FOR GOVERNMENTAL ENTITIES.**

3       “(a) STATES.—Except as provided in section 1672,  
4 a state, political subdivision thereof and the District of  
5 Columbia shall be exempt from taxation under this chap-  
6 ter on any gross profits derived from the exercise of any  
7 essential governmental function.

8       “(b) POSSESSIONS.—The government of any posses-  
9 sion of the United States shall be exempt from taxation  
10 under this chapter on any gross profits earned by the pos-  
11 session.

### 12   **“SEC. 1672. TAX-EXEMPT ORGANIZATIONS.**

13       “(a) EXEMPTION FROM TAXATION.—An organiza-  
14 tion described in subsection (c) or (d) of section 501 and  
15 exempt from tax under section 501(a) shall be exempt  
16 from taxation under this chapter.

17       “(b) TAX ON UNRELATED BUSINESS ACTIVITY.—An  
18 organization exempt from taxation under subsection (a)  
19 shall be subject to tax to the extent provided in sections  
20 1675 and 1676, but shall be considered a tax-exempt orga-  
21 nization for purposes of any law that refers to tax-exempt  
22 organizations.

1 **“SEC. 1673. TAX ON UNRELATED BUSINESS ACTIVITY.**

2 “(a) IN GENERAL.—Each organization described in  
3 subsection (b) shall be subject to the Business Consump-  
4 tion Tax under section 1601 on its gross profits from its  
5 unrelated business activity.

6 “(b) ORGANIZATIONS SUBJECT TO TAX.—This sec-  
7 tion shall apply to—

8 “(1) organizations exempt from the business  
9 tax under section 1672, other than instrumentalities  
10 of the United States, and

11 “(2) colleges and universities which are instru-  
12 mentalities of any government and corporations  
13 owned by one or more such colleges or universities.

14 **“SEC. 1674. UNRELATED BUSINESS ACTIVITY.**

15 “(a) IN GENERAL.—‘Unrelated business activity’  
16 means any trade or business the conduct of which is not  
17 substantially related (aside from the need of such organi-  
18 zation for income or funds or the use it makes of the prof-  
19 its derived) to the exercise or performance by such organi-  
20 zation of its charitable, educational, or other purpose or  
21 function constituting the basis for its exemption under  
22 section 501, except that such term does not include any  
23 trade or business—

24 “(1) in which substantially all the work in car-  
25 rying on such trade or business is performed for the  
26 organization without compensation;



1           “(2) which is carried on, in the case of an orga-  
2           nization described in section 501(c)(3) or in the case  
3           of a college or university described in section  
4           1673(b), by the organization primarily for the con-  
5           venience of its members, students, patients, officers,  
6           or employees, which is the selling by the organiza-  
7           tion of items of work-related clothes and equipment  
8           and items normally sold through vending machines,  
9           through food dispensing facilities, or by snack bars,  
10          for the convenience of its members at their usual  
11          places of employment; or

12           “(3) which is the selling of merchandise, sub-  
13          stantially all of which has been received by the orga-  
14          nization as gifts or contributions.

15          “(b) ADVERTISING, ETC., ACTIVITIES.—For purposes  
16          of this section, ‘trade or business’ includes any activity  
17          which is carried on for the production of income from the  
18          sale of goods or the performance of services. For purposes  
19          of the preceding sentence, an activity does not lose identity  
20          as a trade or business merely because it is carried on with-  
21          in a larger aggregate of similar activities or within a larger  
22          complex of other endeavors which may, or may not, be  
23          related to the exempt purposes of the organization. Where  
24          an activity carried on for profit constitutes an unrelated  
25          trade or business, no part of such trade or business shall

1 be excluded from such classification merely because it does  
2 not result in profit.

3 “(c) TRADE OR BUSINESS.—

4 “(1) CERTAIN BUSINESS ACTIVITIES.—An ac-  
5 tivity shall not be considered a ‘trade or business’  
6 solely because the activity is a business activity  
7 (such as certain passive rental activity) that would  
8 be subject to the business tax if conducted by a busi-  
9 ness entity other than a tax-exempt organization.

10 “(2) REGULATIONS.—The Secretary shall pre-  
11 scribe regulations defining a ‘trade or business’.  
12 Such regulations shall be consistent with the provi-  
13 sions under sections 511 through 513, except to the  
14 extent such provisions are inconsistent with other  
15 principles of the business tax.

16 “(3) TRADE SHOWS.—The conduct of trade  
17 shows and conventions shall not be excluded from  
18 the definition of trade or business.

19 **“Subchapter I—Cooperatives**

“Sec. 1681. Patronage dividends of cooperatives.

20 **“SEC. 1681. PATRONAGE DIVIDENDS OF COOPERATIVES.**

21 “(a) PATRONAGE DIVIDENDS PAID BY SUPPLY CO-  
22 OPERATIVES.—A qualified patronage dividend paid by a  
23 supply cooperative to a patron shall be treated as if it is

1 a refund of a portion of the amounts paid by the patron  
2 for goods, services, or use of capital.

3 “(b) PATRONAGE DIVIDENDS PAID BY MARKETING  
4 COOPERATIVES.—A qualified patronage dividend paid to  
5 a patron by a marketing cooperative shall be treated as  
6 an upward price adjustment in the amount received by the  
7 patron for its goods marketed by the cooperative.

8 “(c) DIVIDEND TREATMENT.—Only the portion of a  
9 patronage dividend that is not a qualified patronage divi-  
10 dend shall be treated as a dividend under this chapter.

11 “(d) REGULATIONS.—The Secretary shall prescribe  
12 regulations for the application of this section. The regula-  
13 tions shall generally be consistent with subchapter T of  
14 chapter 1 except to the extent that such rules are incon-  
15 sistent with provisions of this chapter.

## 16 **“Subchapter J—Sourcing Rules**

“Sec. 1691. Exports of property or services.

“Sec. 1692. Imports of property or services.

“Sec. 1693. Import or export of services.

“Sec. 1694. International transportation services.

“Sec. 1695. International communications.

“Sec. 1696. Insurance.

“Sec. 1697. Banking services.

### 17 **“SEC. 1691. EXPORTS OF PROPERTY OR SERVICES.**

18 “(a) GENERAL RULE.—Taxable receipts do not in-  
19 clude amounts received by the exporter thereof for prop-  
20 erty or services exported from the United States for use  
21 or consumption outside the United States.

1       “(b) EXPORT THROUGH NONBUSINESS ENTITY.—  
2 For purposes of subsection (a), if property or services are  
3 sold to a governmental entity or a tax-exempt organization  
4 for export and are exported other than in an activity of  
5 such entity which is subject to the business tax, then the  
6 seller of such property or services is deemed to be the ex-  
7 porter thereof.

8 **“SEC. 1692. IMPORTS OF PROPERTY OR SERVICES.**

9       “(a) IN GENERAL.—The import of property or serv-  
10 ices for consumption in the United States shall constitute  
11 a business purchase if such property or service is to be  
12 used in a business activity in the United States. Property  
13 being held for sale or retail by a business entity that is  
14 in the business of selling goods shall be considered held  
15 for ‘use in a business activity’.

16       “(b) AMOUNT OF BUSINESS PURCHASE.—

17           “(1) IN GENERAL.—The cost of business pur-  
18 chases with respect to the import of property or  
19 services for use or consumption in the United States  
20 is the customs value, price or other amount used for  
21 purposes of determining the import tax under sec-  
22 tion 1701 or section 1702.

23           “(2) IMPORT TAX.—The cost of business pur-  
24 chases does not include any import tax paid. No de-  
25 duction shall be allowed with respect to property or

1 service imported by a business entity unless the im-  
2 port tax is paid with respect to such import.

3 **“SEC. 1693. IMPORT OR EXPORT OF SERVICES.**

4 “(a) IN GENERAL.—Except as otherwise provided in  
5 this subchapter or in rules prescribed under subchapter  
6 G (relating to financial intermediation business), services  
7 shall not be treated as imported or exported from the loca-  
8 tion in which they are performed.

9 “(b) IMPORT OF SERVICES.—A business entity shall  
10 be treated as importing a service if—

11 “(1) the entire benefit of the service will be re-  
12 alized in the United States, and

13 “(2) the benefit will be realized in connection  
14 with the United States business activities of the  
15 business entity.

16 “(c) EXPORT OF SERVICES.—A business will be  
17 treated as exporting a service if—

18 “(1) the entire benefit of the service will be re-  
19 alized outside of the United States, and

20 “(2) the benefit will be realized solely in con-  
21 nection with the activities of the purchaser occurring  
22 outside the United States.

23 “(d) SERVICES ACQUIRED FROM SERVICE PROVIDER  
24 THAT PROVIDES SERVICES IN AND OUTSIDE THE  
25 UNITED STATES.—

1           “(1) IN GENERAL.—If a business entity ac-  
2           quires services from a service provider that provides  
3           services both in and outside the United States and  
4           the service provider shows on the invoice where the  
5           services are provided—

6                   “(A) the business entity shall treat the  
7                   services as provided where stated on the invoice,  
8                   and

9                   “(B) the service provider shall treat as tax-  
10                  able receipts any services listed as provided in  
11                  the United States.

12           “(2) NO INVOICE.—If a business entity acquires  
13           services from a service provider that provides serv-  
14           ices both in and outside the United States and the  
15           service provider does not show on an invoice where  
16           such services are provided—

17                   “(A) the business entity shall treat the  
18                   services as if provided in the location to which  
19                   payment is sent, and

20                   “(B) the service provider shall treat as tax-  
21                  able receipts any payments received in the  
22                  United States.

23 **“SEC. 1694. INTERNATIONAL TRANSPORTATION SERVICES.**

24           “(a) TRANSPORTATION OF PROPERTY.—

25                   “(1) TAXABLE RECEIPTS.—

1           “(A) EXPORTS.—Taxable receipts do not  
2 include receipts from the transportation of  
3 property exported from the United States.

4           “(B) IMPORTS.—Taxable receipts include  
5 receipts from transportation of property im-  
6 ported into the United States only if such costs  
7 are not taken into account in determining the  
8 import tax.

9           “(C) PRESUMPTIONS.—The Secretary shall  
10 prescribe regulations describing situations in  
11 which a transporter of property must presume  
12 that no import tax has been paid on the cost of  
13 its services.

14           “(2) BUSINESS PURCHASES.—

15           “(A) EXPORTS.—Business purchases do  
16 not include amounts paid or incurred for the  
17 cost of transportation of property exported from  
18 the United States.

19           “(B) IMPORTS.—Amounts paid or incurred  
20 for transportation of goods imported into the  
21 United States, shall constitute a cost of busi-  
22 ness purchase only to the extent that they are  
23 taken into account in determining the customs  
24 value for purposes of section 1701(a) (relating  
25 to the import tax).

1 “(b) TRANSPORTATION OF PASSENGERS.—

2 “(1) TAXABLE RECEIPTS.—Taxable receipts—

3 “(A) include receipts from the transpor-  
4 tation of passengers from the United States to  
5 a destination outside the United States, but

6 “(B) do not include receipts from the  
7 transportation of passengers from outside the  
8 United States to a destination in the United  
9 States.

10 “(2) BUSINESS PURCHASES.—Business pur-  
11 chases—

12 “(A) include amounts paid or incurred in  
13 a business activity for the transportation of  
14 passengers from the United States to a destina-  
15 tion outside the United States, but

16 “(B) do not include amounts paid or in-  
17 curred for transportation of passengers from  
18 outside the United States to a destination in  
19 the United States.

20 “(3) SIMPLIFYING RULES.—The Secretary may  
21 provide rules that simplify this subsection, including  
22 rules under which—

23 “(A) half of receipts attributable to trans-  
24 portation to or from the United States are  
25 treated as taxable receipts,



1           “(B) half of the cost for business trips to  
2           and from the United States are treated as busi-  
3           ness purchases, and

4           “(C) all transportation expenses of a busi-  
5           ness entity that has no regular business outside  
6           the United States are treated as business pur-  
7           chases.

8   **“SEC. 1695. INTERNATIONAL COMMUNICATIONS.**

9           “(a) IN GENERAL.—For purposes of section 1692,  
10          communications services shall be treated as provided at  
11          the point of origin of the communications and shall not  
12          be treated as imported or exported.

13          “(b) COMMUNICATIONS SERVICES.—Communications  
14          services include—

15                 “(1) telephone communications services,

16                 “(2) courier services (except in the case of  
17                 transportation of property that is imported or ex-  
18                 ported),

19                 “(3) satellite transmission services,

20                 “(4) telegraph services,

21                 “(5) facsimile transmission services, and

22                 “(6) other similar services.

23   **“SEC. 1696. INSURANCE.**

24          “(a) IN GENERAL.—Insurance services will be treat-  
25          ed as provided at the location of the insurance company

1 providing the services. Except as the Secretary may pre-  
2 scribe by regulations, insurance companies will be treated  
3 as providing services at the location to which insurance  
4 payments are made.

5 “(b) INSURED RISKS IN THE UNITED STATES.—If  
6 insurance services are provided outside the United States  
7 and the insured risk is located in the United States—

8 “(1) the insurance service shall be treated as  
9 imported,

10 “(2) the insurance premiums shall be subject to  
11 the import tax, and

12 “(3) payments of insurance benefits shall not be  
13 treated as imported.

14 “(c) INSURED RISK OUTSIDE THE UNITED  
15 STATES.—If insurance services are provided inside the  
16 United States and the insured risk is located outside the  
17 United States—

18 “(1) insurance services shall be treated as ex-  
19 ported, and

20 “(2) payments of insurance benefits shall be  
21 treated as payments for services outside the United  
22 States, and shall not be deducted as business pur-  
23 chases.

24 “(d) INSURANCE SERVICES.—Insurance services  
25 means the provision of insurance and services related to

1 insurance other than insurance that is treated as a savings  
2 asset.

3 **“SEC. 1697. BANKING SERVICES.**

4 “The Secretary shall prescribe regulations on the lo-  
5 cation of banking services and the extent to which such  
6 services are to be treated as imported or exported.

7 **“Subchapter K—Import Tax**

“Sec. 1701. Imposition of tax on property.

“Sec. 1702. Imposition of tax on import of services.

“Sec. 1703. General rules for the import tax.

8 **“SEC. 1701. IMPOSITION OF TAX ON PROPERTY.**

9 “(a) GENERAL RULE.—There is hereby imposed a  
10 tax equal to 8.5 percent of the customs value of all prop-  
11 erty entered into the United States for consumption, use  
12 or warehousing.

13 “(b) LIABILITY FOR TAX.—The tax imposed on the  
14 import of property by subsection (a) shall be paid by the  
15 person entering the property into the United States for  
16 consumption, use or warehousing. Such tax shall be due  
17 and payable at the time of import.

18 “(c) IMPORTS OF PREVIOUSLY EXPORTED PROP-  
19 erty.—In the case of any article that is classified under  
20 a heading or subheading of subchapter I or II of chapter  
21 98 of the Tariff Schedules of the United States, the tax  
22 under this section shall be imposed only on that portion  
23 of the customs value of such article that is dutiable under  
24 such heading or subheading.

1       “(d) IMPORTS FOR PERSONAL CONSUMPTION.—The  
 2 import tax imposed by this section shall not apply to any  
 3 article entered into the United States duty free under sub-  
 4 chapters I through VII of chapter 98 of the Tariff Sched-  
 5 ules of the United States.

6       **“SEC. 1702. IMPOSITION OF TAX ON IMPORT OF SERVICES.**

7       “(a) GENERAL RULE.—There is hereby imposed a  
 8 tax equal to 8.5 percent of the cost of all services treated  
 9 as imported into the United States during the taxable pe-  
 10 riod of the service recipient.

11       “(b) LIABILITY FOR THE TAX.—The tax on the im-  
 12 port of services imposed by subsection (a) shall be paid  
 13 by the person who receives the imported services. The tax  
 14 shall be payable as if it were an addition to the business  
 15 tax imposed by section 1601.

16       “(c) IMPORTED SERVICES.—For purposes of this sec-  
 17 tion, services shall be treated as imported if they are treat-  
 18 ed as imported under section 1693 (general rules on im-  
 19 port of services) or section 1696 (related to insurance).

20       **“SEC. 1703. GENERAL RULES FOR THE IMPORT TAX.**

21       “‘Import tax’ means the tax imposed by section 1701  
 22 on the import of property and the tax imposed by section  
 23 1702 on the import of services.

24       **“Subchapter L—Transition Rules**

“Sec. 1711. Amortization of transition basis.

1 **“SEC. 1711. AMORTIZATION OF TRANSITION BASIS.**

2       “(a) **TRANSITION BASIS DEDUCTION.**—The ‘transi-  
3 tion basis deduction’ for a taxable period is the sum of  
4 the amortization allowance determined under this section  
5 for the taxable period.

6       “(b) **TREATMENT OF INTEREST FLOWS.**—Interest  
7 flows between non-financial businesses shall be treated as  
8 under current law, phased out over 5 years.

9       “(c) **AMORTIZATION RULES.**—The amortization al-  
10 lowance to all property placed in service before the effec-  
11 tive date of this section shall be the lesser of—

12               “(1) the amortization period under current law  
13 remaining on such date, or

14               “(2) a 5-year ratable period beginning on such  
15 date.

16 **“Subchapter M—Rules for Administration,**  
17 **Consolidated Returns**

“Sec. 1721. Returns, due dates, etc.

“Sec. 1722. Consolidated returns.

“Sec. 1723. Seller liable for tax.

“Sec. 1724. Tax invoices.

“Sec. 1725. Time for filing return and claiming credit; deposits of tax.

“Sec. 1726. Secretary to be notified of certain events.

“Sec. 1727. Regulations.

18 **“SEC. 1721. RETURNS, DUE DATES, ETC.**

19       “(a) **IN GENERAL.**—Until subtitle F is amended to  
20 reflect the adoption of this chapter, the rules of subtitle  
21 F relating to C corporations shall apply to business enti-  
22 ties with respect to—

- 1 “(1) returns and records;
- 2 “(2) time and place for paying tax;
- 3 “(3) assessment of taxes;
- 4 “(4) collections and liens;
- 5 “(5) abatements, credits, and refunds;
- 6 “(6) interest on underpayments and overpay-
- 7 ments;
- 8 “(7) additions to tax and penalties;
- 9 “(8) closing agreements and compromises;
- 10 “(9) crimes;
- 11 “(10) judicial proceedings;
- 12 “(11) discovery of liability and enforcement;
- 13 and
- 14 “(12) estimated taxes.

15 “(b) **INDIVIDUALS ENGAGING IN BUSINESS ACTIVI-**  
16 **TIES.**—Under rules prescribed by the Secretary, individ-  
17 uals engaging in business activities on their own or with  
18 their spouses shall be permitted to file their business tax  
19 returns with their individual tax returns and shall be sub-  
20 ject to estimated tax rules for individual income tax re-  
21 turns.

22 **“SEC. 1722. CONSOLIDATED RETURNS.**

23 “(a) **IN GENERAL.**—Business entities may file con-  
24 solidated returns of business tax if they would have been  
25 permitted to file consolidated returns under section 1501

1 and such section were applied by treating each business  
2 entity as a corporation and its owners or partners as  
3 shareholders.

4 “(b) FINANCIAL INSTITUTIONS.—Financial inter-  
5 mediation businesses may be included in consolidated re-  
6 turns, but each financial intermediation business must  
7 compute its gross profits separately.

8 “(c) INTERCOMPANY TRANSACTIONS.—In computing  
9 the gross profits of a consolidated group, intercompany  
10 transactions can be taken into account, or at the election  
11 of the filer, be disregarded (except in the case of trans-  
12 actions with financial intermediation businesses).

13 **“SEC. 1723. SELLER LIABLE FOR TAX.**

14 “The person selling the property or services shall be  
15 liable for the tax imposed by section 1601.

16 **“SEC. 1724. TAX INVOICES.**

17 “(a) SELLER MUST GIVE PURCHASER TAX IN-  
18 VOICE.—Any taxable person engaging in a taxable trans-  
19 action shall give the purchaser a tax invoice with respect  
20 to such transaction if the seller has reason to believe that  
21 the purchaser is a taxable person.

22 “(b) CONTENT OF INVOICE.—The tax invoice re-  
23 quired by subsection (a) with respect to any transaction  
24 shall set forth—

1           “(1) the name and identification number of the  
2 seller,

3           “(2) the name of the purchaser,

4           “(3) the amount of the tax imposed by section  
5 1601, and

6           “(4) such other information as may be pre-  
7 scribed by regulations.

8           “(c) NO CREDIT WITHOUT INVOICE.—

9           “(1) IN GENERAL.—Except as provided in para-  
10 graphs (2) and (3), a purchaser may claim a credit  
11 with respect to a transaction only if the purchaser—

12           “(A) has received from the seller and has  
13 in the purchaser’s possession a tax invoice  
14 which meets the requirements of subsection (b),  
15 and

16           “(B) is named as the purchaser in such in-  
17 voice.

18           “(2) EMPLOYEES OR OTHER AGENTS NAMED IN  
19 INVOICES.—To the extent provided in regulations,  
20 the naming of an employee or other agent of the  
21 purchaser shall be treated as the naming of the pur-  
22 chaser.

23           “(3) WAIVER OF INVOICE REQUIREMENT IN  
24 CERTAIN CASES.—To the extent provided in regula-  
25 tions, paragraph (1) shall not apply—





1           “(1) IN GENERAL.—Except as provided in para-  
2           graph (2), a credit allowable by section 1606 with  
3           respect to a transaction may be allowed only for the  
4           first taxable period by the close of which the tax-  
5           payer—

6                   “(A) has paid or accrued amounts properly  
7                   allocable to the tax imposed by section 1601  
8                   with respect to such transaction, and

9                   “(B) has a tax invoice (or equivalent) with  
10                  respect to such transaction.

11           “(2) USE FOR LATER PERIOD.—Under regula-  
12           tions, a credit allowable by section 1606 may be al-  
13           lowed for a period after the period set forth in para-  
14           graph (1).

15           “(c) TAXABLE PERIOD.—For purposes of this chap-  
16           ter—

17                   “(1) IN GENERAL.—The term ‘taxable period’  
18                   means a calendar quarter.

19                   “(2) EXCEPTION.—

20                           “(A) ELECTION OF 1-MONTH PERIOD.—If  
21                           the taxpayer so elects, the term ‘taxable period’  
22                           means a calendar month.

23                           “(B) OTHER PERIODS.—To the extent pro-  
24                           vided in regulations, the term ‘taxable period’

1 includes a period, other than a calendar quarter  
2 or month, selected by the taxpayer.

3 “(d) TAX POINT.—For purposes of this chapter—

4 “(1) CHAPTER 1 RULES WITH RESPECT TO  
5 SELLER GOVERN.—Except as provided in paragraph  
6 (2), the tax point for any sale of property or services  
7 is the earlier of—

8 “(A) the time (or times) when any income  
9 from the sale should be treated by the seller as  
10 received or accrued (or any loss should be taken  
11 into account by the seller) for purposes of chap-  
12 ter 1, or

13 “(B) the time (or times) when the seller  
14 receives payment for the sale.

15 “(2) IMPORTS.—In the case of the importing of  
16 property, the tax point is when the property is en-  
17 tered, or withdrawn from warehouse, for consump-  
18 tion in the United States.

19 “(e) MONTHLY DEPOSITS REQUIRED.—To the extent  
20 provided in regulations, monthly deposits may be required  
21 of the estimated liability for any taxable period for the  
22 tax imposed by section 1601.

1 **“SEC. 1726. SECRETARY TO BE NOTIFIED OF CERTAIN**  
2 **EVENTS.**

3 “To the extent provided in regulations, each person  
4 engaged in a business shall notify the Secretary (at such  
5 time or times as may be prescribed by such regulations)  
6 of any change in the form in which a business is conducted  
7 or any other change which might affect the liability for  
8 the tax imposed by section 1601 or the amount of such  
9 tax or any credit against such tax, or otherwise affect the  
10 administration of such tax in the case of such person.

11 **“SEC. 1727. REGULATIONS.**

12 “The Secretary shall prescribe such regulations as  
13 may be necessary to carry out the purposes of this chap-  
14 ter.

15 **“Subchapter N—Definitions and Rules of**  
16 **Application**

“Sec. 1731. Definitions.

“Sec. 1732. Rules of application.

17 **“SEC. 1731. DEFINITIONS.**

18 “If a term that is used but not defined in this chapter  
19 or in section 7701 is defined in chapter 1, the definition  
20 in chapter 1 shall apply except if manifestly incompatible  
21 with the intent of the provision in which the term is used.

1 **“SEC. 1732. RULES OF APPLICATION.**

2 “(a) DEFINITIONS.—Any definition included in this  
3 chapter shall apply for all purposes of this chapter un-  
4 less—

5 “(1) such definition is limited to the purposes  
6 of a particular chapter, section, or subsection, or

7 “(2) the definition clearly would not be applica-  
8 ble in a particular context.

9 “(b) INTERPRETATIONS CONSISTENT WITH INTER-  
10 NAL REVENUE CODE OF 1986.—Terms not defined in this  
11 chapter, chapter 1 or section 7701, but defined elsewhere  
12 in this title, shall be interpreted in a manner consistent  
13 with this title, except to the extent such interpretation  
14 would be inconsistent with the principles and purposes of  
15 this chapter.”.

16 (b) The amendments made by this section shall be  
17 effective on January 1, 2010, except to the extent other-  
18 wise specifically provided in the text of such amendments.

19 **SEC. 603. REPEAL OF CHAPTER 6.**

20 Chapter 6 of the Code (relating to consolidated re-  
21 turns) is repealed as of January 1, 2010.

22 **SEC. 604. REVISIONS TO THE CODE.**

23 Not later than January 1, 2010, the Secretary shall  
24 submit to Congress proposed changes in the Internal Rev-  
25 enue Code of 1986 that—

1           (1) revise subtitles C through J of such Code  
2           to fully reflect the amendments to subtitle A of such  
3           Code made by this title and the repeal of subtitle B  
4           of such Code,

5           (2) include statutory definitions or rules in  
6           cases where the Secretary concludes that the defini-  
7           tions or rules cannot or should not be addressed by  
8           regulation,

9           (3) revise chapter 2 of such Code (relating to  
10          the self-employment tax) to conform to changes  
11          made by this title, and

12          (4) revise chapter 3 of such Code (relating to  
13          withholding on nonresident aliens and foreign cor-  
14          porations) to reflect changes made by this title.

15 **SEC. 605. APPLICATION OF SUBTITLE F.**

16          Until such time as subtitle F of the Internal Revenue  
17          Code of 1986 is amended to reflect the amendments made  
18          by this title, the provisions of such subtitle F shall be  
19          treated as generally applying to chapter 7 of subtitle A  
20          of such Code—

21                 (1) without regard to specific cross references,

22                 (2) without regard to provisions relating to  
23          partnerships, and

24                 (3) as if the business tax under such chapter 7  
25          were the corporate income tax and all business enti-

1       ties were corporations (except for purposes of collec-  
2       tion, in which case the owners of noncorporate enti-  
3       ties shall be obligated for taxes owned by the entities  
4       to the same extent as they would if the entity owed  
5       the tax prior to the amendment of the Code).

6       **SEC. 606. EFFECTIVE DATES.**

7       (a) IN GENERAL.—Except as otherwise provided in  
8       this title, the amendments made by this title shall be effec-  
9       tive on and after January 1, 2010, with respect to tax  
10      years beginning on such date.

11      (b) SPECIAL RULES FOR BUSINESSES WITH 52–53  
12      WEEK YEAR.—If a business uses a 52–53 week taxable  
13      period the amendments made by this title shall apply to  
14      the business with respect to its tax year beginning in the  
15      last week in December except with respect to any trans-  
16      actions occurring during 2009 that were structured to  
17      take advantage of the application of this title to such busi-  
18      ness at a time when this title did not apply to other busi-  
19      nesses or to individuals.

20                                   **TITLE VII—BUDGET**  
21                                   **ENFORCEMENT**

22      **SEC. 701. SHORT TITLE; TABLE OF CONTENTS; DEFINI-**  
23                                   **TIONS.**

24      (a) SHORT TITLE.—This title may be cited as the  
25      “Budget Control Act of 2009”.

## 1 (b) TABLE OF CONTENTS.—

## TITLE VII—BUDGET ENFORCEMENT

- Sec. 701. Short title; table of contents; definitions.  
 Sec. 702. Long-term projections.  
 Sec. 703. Preview spending reduction order.  
 Sec. 704. Final spending reduction order.  
 Sec. 705. Eliminating excess spending amounts.  
 Sec. 706. Special procedures.  
 Sec. 707. Suspension in the event of war or low growth.  
 Sec. 708. Alternate spending reduction legislation in the House of Representatives.  
 Sec. 709. Alternate spending reduction legislation in the Senate.  
 Sec. 710. General provisions.  
 Sec. 711. Effective date.

## 2 (c) DEFINITIONS.—As used in this title:

3 (1) The terms “budget authority” and “out-  
 4 lays” have the meanings given to such terms in sec-  
 5 tion 3 of the Congressional Budget Act of 1974.

6 (2) The term “budgetary resources” means new  
 7 budget authority, budget authority, unobligated bal-  
 8 ances, direct spending authority, and obligation limi-  
 9 tations.

10 (3) The term “spending reduction” refers to  
 11 the cancellation of budgetary resources provided by  
 12 discretionary appropriations or direct spending.

13 (4) The term “discretionary appropriations”  
 14 means budgetary resources provided in appropriation  
 15 Acts.

16 (5) The term “direct spending” means budget  
 17 resources provided in law other than appropriation  
 18 Acts.



1           (6) The term “gross domestic product”, with  
2           respect to any fiscal year, means the gross national  
3           product during such fiscal year consistent with De-  
4           partment of Commerce definitions.

5           (7) The term “account” means an item for  
6           which appropriations are made in any appropriation  
7           Act and, for items not provided for in appropriation  
8           Acts, such term means an item for which there is a  
9           designated budget account identification code num-  
10          ber in the President’s budget.

11          (8) The term “budget year” means, with re-  
12          spect to a session of Congress, the fiscal year of the  
13          Government that starts on October 1 of the calendar  
14          year in which that session begins.

15          (9) The term “current year” means, with re-  
16          spect to a budget year, the fiscal year that imme-  
17          diately precedes that budget year.

18          (10) The term “OMB” means the Director of  
19          the Office of Management and Budget.

20          (11) The term “CBO” means the Director of  
21          the Congressional Budget Office.

22          (12) The term “baseline” means the baseline  
23          estimates OMB or CBO, as applicable, annually sub-  
24          mits to Congress consistent with section 257 of the

1       Balanced Budget and Emergency Deficit Control  
2       Act of 1985.

3           (13) The term “guideline period” means the pe-  
4       riod of fiscal years as set forth in section 702(f).

5           (14) The term “excess spending amount”  
6       means the amount of outlays a projected spending  
7       amount exceeds the guideline spending amount for a  
8       fiscal year within the guideline period.

9           (15) The term “projected spending amount”  
10      means the amount of total outlays of the Federal  
11      Government for a fiscal year within the guideline pe-  
12      riod and as calculated in section 702(c).

13          (16) The term “guideline spending amount”  
14      means the amount of total outlays of the Federal  
15      Government for a fiscal year as a percentage of the  
16      gross domestic product for such fiscal year within  
17      the guideline period.

18          (17) The term “preview order” means a pre-  
19      view spending reduction order as defined in section  
20      703.

21          (18) The term “final order” means a final  
22      spending reduction order as defined in section 704.

23   **SEC. 702. LONG-TERM PROJECTIONS.**

24      (a) OMB LONG-TERM ECONOMIC GROWTH AND  
25    BUDGET PROJECTIONS.—For each fiscal year within the

1 guideline period, OMB shall prepare a report that sets  
2 forth the amount of total spending of the Government in  
3 outlays, within the budget as submitted by the President  
4 annually under section 1105(a) of title 31, United States  
5 Code.

6 (b) CBO LONG-TERM ECONOMIC GROWTH AND  
7 BUDGET PROJECTIONS.—By February 1 of each calendar  
8 year, for each fiscal year within the guideline period, CBO  
9 shall prepare a report that sets forth the amount of total  
10 spending of the Government in outlays, and the amount  
11 of spending of each program within the budget as CBO  
12 prepares its annual baseline and its reestimate of the  
13 President's budget.

14 (c) INCLUSION IN THE FINAL SPENDING REDUC-  
15 TION.—Each report prepared pursuant to subsections (a)  
16 and (b) shall be included in the preview spending reduc-  
17 tion and final spending reduction, as applicable, set forth  
18 in sections 703 and 704.

19 **SEC. 703. PREVIEW SPENDING REDUCTION ORDER.**

20 (a) ISSUANCE.—Not later than 15 calendar days  
21 after the date Congress adjourns to end a session of Con-  
22 gress, every fiscal year other than which a final order is  
23 issued, OMB shall issue a preview spending reduction  
24 order.

1 (b) CONTENTS.—A preview order shall be subject to  
2 the same requirements as that set forth for a final spend-  
3 ing reduction in section 704.

4 (c) AVAILABILITY.—A preview order required to be  
5 issued by this section shall be submitted by OMB to the  
6 House of Representatives and the Senate on the day it  
7 is issued.

8 (d) EFFECT.—A preview order shall not cause a  
9 spending reduction.

10 **SEC. 704. FINAL SPENDING REDUCTION ORDER.**

11 (a) ISSUANCE.—Not later than 15 calendar days  
12 after the date Congress adjourns to end a session of Con-  
13 gress, every fifth fiscal year following the fiscal year in  
14 which this Act is enacted, OMB shall issue a final spend-  
15 ing reduction order to eliminate an excess spending  
16 amount (if any) as calculated under subsection (b).

17 (b) CONTENT OF A FINAL SPENDING CONTROL  
18 ORDER.—In addition to any other information required  
19 under this title to be included in any final spending control  
20 order, this order shall contain, for the budget year, for  
21 each account to be subject to a spending reduction, esti-  
22 mates of the baseline level of budgetary resources and re-  
23 sulting outlays and the amount of budgetary resources to  
24 be subject to a spending reduction and resulting outlay  
25 reductions. The order shall also contain estimates of the

1 effects on outlays of the spending reduction in each out-  
2 year for direct spending programs.

3 (c) AVAILABILITY.—A final order required to be  
4 issued by this section shall be submitted by OMB to the  
5 House of Representatives, the Senate, and the President  
6 on the day it is issued.

7 (d) SPENDING CONTROL BUFFER.—If there is an ex-  
8 cess spending amount in only one fiscal year or in one  
9 period of two successive fiscal years during the guideline  
10 period, and such amount or amounts exceed the guideline  
11 spending amount by .1 percent of GDP or less, then the  
12 final spending reduction shall be issued, but shall not take  
13 effect.

14 (e) PRESIDENTIAL ORDER.—On the date specified in  
15 subsection (a), if in its final spending reduction OMB cal-  
16 culates there exists an impermissible excess spending  
17 amount, the President shall issue an order fully imple-  
18 menting without change all spending reductions required  
19 by the OMB calculations set forth in that report. This  
20 order shall be effective on the first day of the fiscal year  
21 following the fiscal year in which the order is issued.

22 **SEC. 705. ELIMINATING EXCESS SPENDING AMOUNTS.**

23 (a) ENFORCING A SPENDING REDUCTION FOR DIS-  
24 CRETIONARY SPENDING.—

1           (1) ELIMINATING A DISCRETIONARY SPENDING  
2 EXCESS.—OMB shall include in its final order a re-  
3 quirement that each discretionary account shall be  
4 reduced by an amount of budget authority calculated  
5 by multiplying the baseline level of budgetary re-  
6 sources in that account at that time by the uniform  
7 percentage necessary to reduce outlays sufficient to  
8 eliminate an excess spending amount.

9           (2) PART-YEAR APPROPRIATIONS.—If, on the  
10 date a final spending reduction is issued, there is in  
11 effect an Act making or continuing appropriations  
12 for part of a fiscal year for any budget account, then  
13 the dollar spending reduction calculated for that ac-  
14 count under paragraph (1) shall be subtracted  
15 from—

16                   (A) the annualized amount otherwise avail-  
17 able by law in that account under that or a sub-  
18 sequent part-year appropriation; and

19                   (B) when a full-year appropriation for that  
20 account is enacted, from the amount otherwise  
21 provided by the full-year appropriation.

22           (b) ELIMINATING A DIRECT SPENDING EXCESS.—  
23 OMB shall include in its final order a requirement that  
24 each direct spending account shall be reduced by an  
25 amount of budget authority calculated by multiplying the

1 baseline level of budgetary resources in that account at  
2 that time by the uniform percentage necessary to reduce  
3 outlays sufficient to eliminate an excess spending amount.

4 (c) UNIFORM PERCENTAGE.—The percentage re-  
5 quired to produce a spending reduction, as ordered by a  
6 final order, shall be calculated by OMB by adding all  
7 budgetary resources of the Government, and reducing that  
8 amount by an amount sufficient to reduce the total  
9 amount of outlays of the Government to equal, or lower,  
10 a level of outlays than the amount set forth in the guide-  
11 line period.

12 **SEC. 706. SPECIAL PROCEDURES.**

13 (a) SOCIAL SECURITY BENEFITS.—Benefits payable  
14 under the old-age, survivors, and disability insurance pro-  
15 gram established under title II of the Social Security Act,  
16 shall be exempt from a spending reduction required by a  
17 final order if—

18 (1) the Social Security Trustees issue, in the  
19 fiscal year such order is issued, a statement that the  
20 old-age, survivors, and disability Trust Funds have  
21 achieved or will achieve solvency under current law  
22 within the guideline period beginning in the year fol-  
23 lowing the year the final order is issued;

24 (2) it would require an amount that exceeds  
25 such amount as the Trustees determine are required

1 to achieve solvency in that period, as determined by  
2 the Social Security Trustees; and

3 (3) it would require a spending reduction of an  
4 amount greater than 1 percent of budgetary re-  
5 sources in any fiscal year within the guideline pe-  
6 riod.

7 (b) NET INTEREST.—A spending reduction shall not  
8 cause any effect on payments for net interest (as set forth  
9 in function 900).

10 (c) OBLIGATED BALANCES.—Obligated balances of  
11 budget authority carried over from prior fiscal years shall  
12 be exempt from a spending reduction under any order  
13 issued under this title.

14 (d) APPLICATION TO FAST GROWING PROGRAMS.—  
15 Any program whose growth in the budget year is less than  
16 the rate of inflation as determined by OMB, shall be ex-  
17 empt from a spending reduction issued under this title.

18 (e) LIMITATION ON SPENDING REDUCTIONS.—No  
19 program shall be subject to a spending reduction of more  
20 than 1 percent of its budgetary resources.

21 (f) UNIFORM PERCENTAGE RATE OF REDUCTION  
22 AND OTHER LIMITATIONS.—All spending reductions with  
23 respect to a fiscal year shall be made so as to ensure that  
24 outlays for each program, project, activity, or account in-  
25 volved are reduced by a percentage rate that is uniform



1 for all such programs, projects, activities, and accounts,  
2 and may not be made so as to achieve a percentage rate  
3 of reduction in any such item exceeding the rate specified  
4 in the order.

5 (g) EFFECT OF A FINAL ORDER.—Upon the issue  
6 of a final order, a spending reduction shall be ordered for  
7 all nonexempt spending accounts. The spending reduction  
8 shall be effective as follows:

9 (1) Budgetary resources subject to a spending  
10 reduction to any discretionary account shall be per-  
11 manently cancelled.

12 (2) The same percentage spending reduction  
13 shall apply to all programs, projects, and activities  
14 within a budget account (with programs, projects,  
15 and activities as delineated in the appropriation Act  
16 or accompanying report for the relevant fiscal year  
17 covering that account, or for accounts not included  
18 in appropriation Acts, as delineated in the most re-  
19 cently submitted President's budget).

20 (3) Administrative regulations implementing a  
21 spending reduction shall be made within 120 days of  
22 the issue of a final order.

23 (4) Budgetary resources subject to a spending  
24 reduction in revolving, trust, and special fund ac-  
25 counts and offsetting collections subject to a spend-

1 ing reduction in appropriation accounts shall not be  
2 available for obligation during the fiscal year in  
3 which the spending reduction is issued, and shall be  
4 available in subsequent years only to the extent as  
5 provided by law.

6 **SEC. 707. SUSPENSION IN THE EVENT OF WAR OR LOW**  
7 **GROWTH.**

8 (a) PROCEDURES IN THE EVENT OF A LOW GROWTH  
9 REPORT.—

10 (1) LOW GROWTH REPORT.—Whenever OMB or  
11 CBO issues a low-growth report under section  
12 710(a), the majority leader of the House of Rep-  
13 resentatives and the majority leader of the Senate  
14 shall introduce a joint resolution suspending the rel-  
15 evant provisions of this title, titles III and IV of the  
16 Congressional Budget Act of 1974, and section 1103  
17 of title 31, United States Code.

18 (2) FORM OF JOINT RESOLUTION.—

19 (A) The matter after the resolving clause  
20 in any joint resolution introduced pursuant to  
21 paragraph (1) shall be as follows: “That the  
22 Congress declares that the conditions specified  
23 in section 711(a) of the Budget Control Act of  
24 2008 are met, and the implementation of the  
25 Congressional Budget and Impoundment Con-

1           trol Act of 1974, chapter 11 of title 31, United  
2           States Code, and the Budget Control Act of  
3           2008 is hereby suspended.”.

4           (B) The title of the joint resolution shall  
5           be “A joint resolution suspending certain provi-  
6           sions of law pursuant to section 711(a) of the  
7           Budget Control Act of 2008.”

8           (3) SUPERMAJORITY.—A joint resolution intro-  
9           duced pursuant to paragraph (1), an amendment  
10          thereto, or a conference report thereon, shall only be  
11          passed if it receives not less than three-fifths vote of  
12          approval of the total number of Members of the  
13          House of Representatives and the Senate.

14          (b) SUSPENSION OF SPENDING REDUCTION PROCE-  
15          DURES.—Upon the enactment of a declaration of war or  
16          a joint resolution described in subsection (a)—

17               (1) the subsequent issuance of any final spend-  
18               ing reduction is precluded;

19               (2) titles III and IV of the Congressional Budg-  
20               et Act of 1974 are suspended; and

21               (3) section 1103 of title 31, United States  
22               Code, is suspended.

23          (c) RESTORATION OF SPENDING CONTROL PROCE-  
24          DURES.—

1           (1) WAR.—In the event of a suspension of  
2           spending control procedures due to a declaration of  
3           war, then, effective with the fifth fiscal year that be-  
4           gins in the session after the state of war is con-  
5           cluded, the provisions of subsection (b) triggered by  
6           that declaration of war are no longer effective.

7           (2) SUSPENSION.—In the event of a suspension  
8           of spending control procedures due to the enactment  
9           of a joint resolution described in subsection (a),  
10          then, effective with regard to the first fiscal year be-  
11          ginning at least 12 months after the enactment of  
12          that resolution, the provisions of subsection (b) trig-  
13          gered by that resolution are no longer effective.

14 **SEC. 708. ALTERNATE SPENDING REDUCTION LEGISLATION**  
15 **IN THE HOUSE OF REPRESENTATIVES.**

16          (a) INTRODUCTION OF JOINT RESOLUTION.—At any  
17          time after the Director of OMB issues a final order for  
18          a fiscal year, but before the end of the session of Congress  
19          in session on the date of the issuance of such order, the  
20          majority leader of the House of Representatives may in-  
21          troduce a joint resolution which contains provisions direct-  
22          ing the President to modify the most recent final order  
23          issued pursuant to this title, or provide an alternative to  
24          eliminate the spending excess for such fiscal year or years.  
25          After the introduction of the first such joint resolution in

1 either House of Congress in any calendar year, then no  
2 other joint resolution introduced pursuant to this section  
3 shall be subject to the procedures set forth in this section.

4 (b) PROCEDURES FOR CONSIDERATION OF JOINT  
5 RESOLUTIONS.—

6 (1) Any committee of the House of Representa-  
7 tives to which an alternative spending compliance  
8 measure is referred shall report it to the House  
9 without amendment not later than the seventh legis-  
10 lative day after the date of its introduction. If a  
11 committee fails to report the bill within that period  
12 or the House has adopted a concurrent resolution  
13 providing for adjournment sine die at the end of a  
14 Congress, it shall be in order to move that the  
15 House discharge the committee from further consid-  
16 eration of the bill. Such a motion shall be in order  
17 only at a time designated by the Speaker in the leg-  
18 islative schedule within two legislative days after the  
19 day on which the proponent announces his intention  
20 to offer the motion. Such a motion shall not be in  
21 order after a committee has reported a spending  
22 compliance measure with respect to that special mes-  
23 sage or after the House has disposed of a motion to  
24 discharge with respect to that special message. The  
25 previous question shall be considered as ordered on

1 the motion to its adoption without intervening mo-  
2 tion except twenty minutes of debate equally divided  
3 and controlled by the proponent and an opponent. If  
4 such a motion is adopted, the House shall proceed  
5 immediately to consider the spending compliance  
6 measure bill in accordance with paragraph (3). A  
7 motion to reconsider the vote by which the motion  
8 is disposed of shall not be in order.

9 (2) After a spending compliance measure is re-  
10 ported or a committee has been discharged from fur-  
11 ther consideration, or the House has adopted a con-  
12 current resolution providing for adjournment sine  
13 die at the end of a Congress, it shall be in order to  
14 move to proceed to consider the spending compliance  
15 measure in the House. Such a motion shall be in  
16 order only at a time designated by the Speaker in  
17 the legislative schedule within two legislative days  
18 after the day on which the proponent announces his  
19 intention to offer the motion. Such a motion shall  
20 not be in order after the House has disposed of a  
21 motion to proceed with respect to that special mes-  
22 sage. The previous question shall be considered as  
23 ordered on the motion to its adoption without inter-  
24 vening motion. A motion to reconsider the vote by  
25 which the motion is disposed of shall not be in order.



1 to eliminate the spending excess for such fiscal year or  
2 years. After the introduction of the first such joint resolu-  
3 tion in either House of Congress in any calendar year,  
4 then no other joint resolution introduced in such House  
5 in such calendar year shall be subject to the procedures  
6 set forth in this section.

7 (b) PROCEDURES FOR CONSIDERATION OF JOINT  
8 RESOLUTIONS.—

9 (1) REFERRAL TO COMMITTEE.—A joint resolu-  
10 tion introduced in the Senate under subsection (a)  
11 shall not be referred to a committee of the Senate  
12 and shall be placed on the calendar pending disposi-  
13 tion of such joint resolution in accordance with this  
14 subsection.

15 (2) CONSIDERATION IN THE SENATE.—On or  
16 after the third calendar day (excluding Saturdays,  
17 Sundays, and legal holidays) beginning after a joint  
18 resolution is introduced under subsection (a), not-  
19 withstanding any rule or precedent of the Senate, in-  
20 cluding rule XXII of the Standing Rules of the Sen-  
21 ate, it is in order (even though a previous motion to  
22 the same effect has been disagreed to) for any Mem-  
23 ber of the Senate to move to proceed to the consider-  
24 ation of the joint resolution. The motion is not in  
25 order after the eighth calendar day (excluding Sat-



1       urdays, Sundays, and legal holidays) beginning after  
2       a joint resolution (to which the motion applies) is in-  
3       troduced. The joint resolution is privileged in the  
4       Senate. A motion to reconsider the vote by which the  
5       motion is agreed to or disagreed to shall not be in  
6       order. If a motion to proceed to the consideration of  
7       the joint resolution is agreed to, the Senate shall im-  
8       mediately proceed to consideration of the joint reso-  
9       lution without intervening motion, order, or other  
10      business, and the joint resolution shall remain the  
11      unfinished business of the Senate until disposed of.

12               (3) DEBATE IN THE SENATE.—

13               (A) In the Senate, debate on a joint resolu-  
14      tion introduced under subsection (a), amend-  
15      ments thereto, and all debatable motions and  
16      appeals in connection therewith shall be limited  
17      to not more than 10 hours, which shall be di-  
18      vided equally between the majority leader and  
19      the minority leader (or their designees).

20               (B) A motion to postpone, or a motion to  
21      proceed to the consideration of other business is  
22      not in order. A motion to reconsider the vote by  
23      which the joint resolution is agreed to or dis-  
24      agreed to is not in order, and a motion to re-  
25      commit the joint resolution is not in order.

1           (C)(i) No amendment that is not germane  
2           to the provisions of the joint resolution shall be  
3           in order in the Senate. In the Senate, an  
4           amendment, any amendment to an amendment,  
5           or any debatable motion or appeal is debatable  
6           for not to exceed 30 minutes to be equally di-  
7           vided between, and controlled by, the mover and  
8           the majority leader (or their designees), except  
9           that in the event that the majority leader favors  
10          the amendment, motion, or appeal, the minority  
11          leader (or the minority leader's designee) shall  
12          control the time in opposition to the amend-  
13          ment, motion, or appeal.

14          (ii) In the Senate, an amendment that is  
15          otherwise in order shall be in order notwith-  
16          standing the fact that it amends the joint reso-  
17          lution in more than one place or amends lan-  
18          guage previously amended. It shall not be in  
19          order in the Senate to vote on the question of  
20          agreeing to such a joint resolution or any  
21          amendment thereto unless the figures then con-  
22          tained in such joint resolution or amendment  
23          are mathematically consistent.

24          (4) VOTE ON FINAL PASSAGE.—Immediately  
25          following the conclusion of the debate on a joint res-

1       olution introduced under subsection (a), a single  
2       quorum call at the conclusion of the debate if re-  
3       quested in accordance with the rules of the Senate,  
4       and the disposition of any pending amendments  
5       under paragraph (3), the vote on final passage of  
6       the joint resolution shall occur.

7           (5) APPEALS.—Appeals from the decisions of  
8       the Chair shall be decided without debate.

9           (6) CONFERENCE REPORTS.—In the Senate,  
10       points of order under titles III and IV of the Con-  
11       gressional Budget Act of 1974 are applicable to a  
12       conference report on the joint resolution or any  
13       amendments in disagreement thereto.

14           (7) RESOLUTION FROM OTHER HOUSE.—If, be-  
15       fore the passage by the Senate of a joint resolution  
16       of the Senate introduced under subsection (a), the  
17       Senate receives from the House of Representatives a  
18       joint resolution introduced under subsection (a),  
19       then the following procedures shall apply:

20           (A) The joint resolution of the House of  
21       Representatives shall not be referred to a com-  
22       mittee and shall be placed on the calendar.

23           (B) With respect to a joint resolution in-  
24       troduced under subsection (a) in the Senate—

1 (i) the procedure in the Senate shall  
2 be the same as if no joint resolution had  
3 been received from the House; but

4 (ii)(I) the vote on final passage shall  
5 be on the joint resolution of the House if  
6 it is identical to the joint resolution then  
7 pending for passage in the Senate; or

8 (II) if the joint resolution from the  
9 House is not identical to the joint resolu-  
10 tion then pending for passage in the Sen-  
11 ate and the Senate then passes the Senate  
12 joint resolution, the Senate shall be consid-  
13 ered to have passed the House joint resolu-  
14 tion as amended by the text of the Senate  
15 joint resolution.

16 (C) Upon disposition of the joint resolution  
17 received from the House, it shall no longer be  
18 in order to consider the resolution originated in  
19 the Senate.

20 (8) SENATE ACTION ON HOUSE RESOLUTION.—

21 If the Senate receives from the House of Represent-  
22 atives a joint resolution introduced pursuant to this  
23 section after the Senate has disposed of a Senate  
24 originated resolution which is identical to the House  
25 passed joint resolution, the action of the Senate with

1 regard to the disposition of the Senate originated  
2 joint resolution shall be deemed to be the action of  
3 the Senate with regard to the House originated joint  
4 resolution. If it is not identical to the House passed  
5 joint resolution, then the Senate shall be considered  
6 to have passed the joint resolution of the House as  
7 amended by the text of the Senate joint resolution.

8 (9) The vote on final passage of a joint resolu-  
9 tion or conference report thereon referred to in para-  
10 graph (1) shall require approval of not less than  
11 three-fifths of the Members of the Senate.

12 **SEC. 710. GENERAL PROVISIONS.**

13 (a) **LOW GROWTH REPORT.**—OMB and CBO shall  
14 notify the Congress if—

15 (1) during the period consisting of the quarter  
16 during which such notification is given, the quarter  
17 preceding such notification, and the 4 quarters fol-  
18 lowing such notification, OMB or CBO has deter-  
19 mined that real economic growth is projected or esti-  
20 mated to be less than zero with respect to each of  
21 any 2 consecutive quarters within such period; or

22 (2) the most recent of the Department of Com-  
23 merce's advance preliminary or final reports of ac-  
24 tual real economic growth indicate that the rate of  
25 real economic growth for each of the most recently

1 reported quarter and the immediately preceding  
2 quarter is less than one percent.

3 (b) ECONOMIC AND TECHNICAL ASSUMPTIONS.—For  
4 all purposes of this title, OMB shall use the same eco-  
5 nomic and technical assumptions as used in the most re-  
6 cent budget submitted under section 1105(a) of title 31,  
7 United States Code.

8 (c) SOCIAL SECURITY TRUSTEE REPORT.—The  
9 Trustees of the Social Security Administration shall annu-  
10 ally issue a report consistent with section 708(c) and OMB  
11 shall include such report in a final order and a preview  
12 order.

13 (d) CONGRESSIONAL SPENDING LIMIT.—(1) The  
14 Congressional Budget and Impoundment Control Act of  
15 1974 is amended by adding at the end of title III the fol-  
16 lowing new section:

17 **“SEC. 316 AGGREGATE SPENDING LIMITS.**

18 “It shall not be in order in the House of Representa-  
19 tives or the Senate to consider any bill, joint resolution,  
20 amendment, motion, or conference report that would cause  
21 an excess spending amount, as defined in section  
22 701(c)(16) of the Budget Control Act of 2008.”.

23 (2) The table of contents set forth in section 1(b) of  
24 the Congressional Budget and Impoundment Control Act

1 of 1974 is amended by inserting after the item relating  
2 to section 315 the following new item:

“Sec. 316. Aggregate spending limits.”.

3 (e) CONGRESSIONAL REVENUE LIMITS.—(1) The  
4 Congressional Budget Act of 1974 (as amended by sub-  
5 section (d)) is further amended by adding at the end of  
6 title III the following new section:

7 **“SEC. 317. TAX RATE LIMITS.**

8 “It shall not be in order in the House of Representa-  
9 tives or the Senate to consider any bill, joint resolution,  
10 amendment, motion, or conference report that would cause  
11 aggregate Federal revenue levels, in any fiscal year, to ex-  
12 ceed the percentage of revenue relative to the Gross Do-  
13 mestic Product set forth in subsection (b) unless so deter-  
14 mined by a vote of not less than three-fifths of the Mem-  
15 bers voting, a quorum being present.”.

16 (2) The table of contents set forth in section 1(b) of  
17 the Congressional Budget and Impoundment Control Act  
18 of 1974 is amended by inserting after the item relating  
19 to section 316 the following new item:

“Sec. 317. Tax rate limits.”.

20 (f) FISCAL YEARS OF THE GUIDELINE PERIOD.—  
21 The fiscal years within the 75-year period referred to as  
22 a guideline period in this title shall be as follows:

23 (1) Fiscal year 2010: 19.9 percent.

24 (2) Fiscal year 2011: 19.8 percent.

- 1 (3) Fiscal year 2012: 20.0 percent.
- 2 (4) Fiscal year 2013: 20.1 percent.
- 3 (5) Fiscal year 2014: 20.2 percent.
- 4 (6) Fiscal year 2015: 20.1 percent.
- 5 (7) Fiscal year 2016: 20.1 percent.
- 6 (8) Fiscal year 2017: 20.2 percent.
- 7 (9) Fiscal year 2018: 20.3 percent.
- 8 (10) Fiscal year 2019: 20.4 percent.
- 9 (11) Fiscal year 2020: 20.5 percent.
- 10 (12) Fiscal year 2021: 20.7 percent.
- 11 (13) Fiscal year 2022: 21.5 percent.
- 12 (14) Fiscal year 2023: 21.7 percent.
- 13 (15) Fiscal year 2024: 22.0 percent.
- 14 (16) Fiscal year 2025: 22.3 percent.
- 15 (17) Fiscal year 2026: 22.5 percent.
- 16 (18) Fiscal year 2027: 22.3 percent.
- 17 (19) Fiscal year 2028: 22.6 percent.
- 18 (20) Fiscal year 2029: 22.9 percent.
- 19 (21) Fiscal year 2030: 23.1 percent.
- 20 (22) Fiscal year 2031: 23.2 percent.
- 21 (23) Fiscal year 2032: 23.9 percent.
- 22 (24) Fiscal year 2033: 23.9 percent.
- 23 (25) Fiscal year 2034: 23.9 percent.
- 24 (26) Fiscal year 2035: 23.9 percent.
- 25 (27) Fiscal year 2036: 24.0 percent.



- 1 (28) Fiscal year 2037: 24.2 percent.
- 2 (29) Fiscal year 2038: 24.2 percent.
- 3 (30) Fiscal year 2039: 24.3 percent.
- 4 (31) Fiscal year 2040: 24.1 percent.
- 5 (32) Fiscal year 2041: 24.1 percent.
- 6 (33) Fiscal year 2042: 24.7 percent.
- 7 (34) Fiscal year 2043: 24.5 percent.
- 8 (35) Fiscal year 2044: 24.5 percent.
- 9 (36) Fiscal year 2045: 24.4 percent.
- 10 (37) Fiscal year 2046: 24.3 percent.
- 11 (38) Fiscal year 2047: 24.2 percent.
- 12 (39) Fiscal year 2048: 24.2 percent.
- 13 (40) Fiscal year 2049: 24.0 percent.
- 14 (41) Fiscal year 2050: 24.0 percent.
- 15 (42) Fiscal year 2051: 24.0 percent.
- 16 (43) Fiscal year 2052: 23.8 percent.
- 17 (44) Fiscal year 2053: 23.6 percent.
- 18 (45) Fiscal year 2054: 23.4 percent.
- 19 (46) Fiscal year 2055: 23.3 percent.
- 20 (47) Fiscal year 2056: 23.2 percent.
- 21 (48) Fiscal year 2057: 23.0 percent.
- 22 (49) Fiscal year 2058: 22.9 percent.
- 23 (50) Fiscal year 2059: 22.7 percent.
- 24 (51) Fiscal year 2060: 22.7 percent.
- 25 (52) Fiscal year 2061: 22.4 percent.

1	(53) Fiscal year 2062: 22.2 percent.
2	(54) Fiscal year 2063: 22.0 percent.
3	(55) Fiscal year 2064: 21.8 percent.
4	(56) Fiscal year 2065: 21.7 percent.
5	(57) Fiscal year 2066: 21.5 percent.
6	(58) Fiscal year 2067: 21.2 percent.
7	(59) Fiscal year 2068: 20.8 percent.
8	(60) Fiscal year 2069: 20.5 percent.
9	(61) Fiscal year 2070: 20.1 percent.
10	(62) Fiscal year 2071: 19.9 percent.
11	(63) Fiscal year 2072: 19.7 percent.
12	(64) Fiscal year 2073: 19.6 percent.
13	(65) Fiscal year 2074: 19.4 percent.
14	(66) Fiscal year 2075: 19.2 percent.
15	(67) Fiscal year 2076: 18.9 percent.
16	(68) Fiscal year 2077: 18.5 percent.
17	(69) Fiscal year 2078: 18.0 percent.
18	(70) Fiscal year 2079: 17.5 percent.
19	(71) Fiscal year 2080: 17.3 percent.
20	(72) Fiscal year 2081: 16.9 percent.
21	(73) Fiscal year 2082: 16.5 percent.
22	(74) Fiscal year 2083: 16.0 percent.
23	(75) Fiscal year 2084: 16.0 percent.

1 **SEC. 711. EFFECTIVE DATE.**

2       This title shall apply to fiscal year 2010 and subse-  
3       quent fiscal years.

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