ISSUE BRIEF

COULD INDIVIDUAL ACCOUNTS LEAD TO GOVERNMENT INTERFERENCE IN THE STOCK MARKET?

Introduction and Overview

A number of recent proposals to reform Social Security rely on equity investment as a way to increase returns to investment. Yet participants in the debate have generally accepted the argument that stock investment through the trust funds could lead to political manipulation of stocks, whereas stock investment through individual accounts would be safe from manipulation. This premise is false, as this paper attempts to demonstrate.

In the case of an individual account system that was managed centrally by the government, such as the federal Thrift Savings Plan, the government would have ample opportunity to restrict investment choices through its contract with private investment managers. Other individual account proposals call for a more decentralized, IRA-type structure: under this structure, the government could control investment choices by withholding tax preferences on retirement savings from funds that failed to comply with investment guidelines.

As a result, individual accounts could be subject to the same hazards of government "stock picking" that some people associate with directly investing the Social Security trust funds in equities. This paper will explore in some detail the potential for political manipulation of individual account investments.

At the same time, it is possible to protect stock investments from political manipulation through a number of mechanisms that have already been tested successfully. Whether the stock investment is accomplished directly by the Social Security trust funds or through individual accounts, the remedies against political manipulation are very similar. This may not be surprising, given the similarity of the problem.

In particular, the government's Thrift Savings Plan for federal employees, which serves as the model for many individual account proposals, has pioneered a number of mechanisms for insulating stock investments from the political process. As will be discussed in more detail below, these include setting up an independent board to manage account investments, and investing in a broad stock market index. Some proponents of individual accounts have recognized the risk of political manipulation by incorporating TSP-like protections into their proposals.[1]

Social Security Reform and the Rationale for Investing in Equities

The Social Security system may be unable to pay full benefits after 2041 unless steps are taken to restore solvency to the system, according to projections by the Social Security actuaries. The Social Security system is currently building up a trust fund that is invested in government securities, but in 2041

Social Security is expected to deplete these assets.[2]

The Social Security trust funds hold government bonds called "special obligations" of the U.S. Treasury. These "specials" earn an interest rate that is based on the yield earned by marketable government debt with four or more years to maturity. Like other government debt, the "specials" held in the OASDI trust funds are considered to be safe from the risk of government default. Furthermore, the "specials" held by the trust funds are, by law, insulated from the price changes that may affect marketable bonds since they can be redeemed at par anytime.

It is widely appreciated, however, that the historical returns to stocks have exceeded the historical returns on government bonds. During the period from 1929 to 1996, the S&P 500 yielded 9.4 percent compared to 2.4 percent for long-term government bonds.[3] Between 1959 and 1996, the average annual rate of return earned on stocks was 3.84 percent higher than the rate earned on the special obligations held by trust funds.[4]

Higher stock returns, if they were saved so as to build assets, would increase the total amount of assets available for retirement. The prospect of higher equity returns has led reformers to call for a way to capture these higher returns.

There are two possible mechanisms for equity investment, and either – or both – could be used. First, Social Security's Old-Age, Survivors and Disability Insurance (OASDI) trust funds could hold equities directly. Alternatively, the Social Security system could be altered to allow individuals to hold equities in individual accounts, which could either supplement or replace part of the existing Social Security system. Both of these options would require a change in law.

Of course, past performance is no guarantee of future returns. The recent travails of the stock market raise concerns about the fate of a cohort of individuals that retires during a sharp market downturn. A person planning to retire who suddenly faces a market downturn might have a choice: postpone retirement; or find a way to live on less retirement income. To the extent that stock investments carry these risks, OASDI would be better positioned than individual accounts to spread the risk over one or more generations.[5]

Opinion varies about what equity returns to expect in the future. Peter Diamond argued that the widely-adopted assumption of a 7 percent long-run real return, based on historical averages, is not consistent with the current value of the stock market and projected slow economic growth. He points out that seven percent real growth in stock prices, combined with plausible assumptions concerning dividends and share repurchases, causes the ratio of stock value to GDP to rise an implausible 20-fold over 75 years.[6] Over the long-term, some economists project that future equity returns will fall relative to equity returns over past decades, coinciding with a drop in total output growth as the workforce grows more slowly. Additionally, a significant increase in the demand for equities could drive down the return to equities relative to the return on bonds. Thus, the hoped-for higher returns from equities might never materialize. Concerns about future stock market returns, however, are not the subject of this paper.

There are additional reasons for supporting Social Security reform measures that would include equity investment. Stock market investment would allow people who had never before participated in the stock market to enjoy the benefits of potentially higher stock returns. While this would be obviously true of individual accounts, it would also be true of trust fund investment in equities. "Pooling" workers' stock holdings in the trust funds would enable the Social Security system to spread the risk of stock market volatility among numerous workers and generations, while workers would benefit from the system's extended ability to pay benefits for additional years.

Another argument in favor of equity investment is that it would allow Social Security to "prefund" some portion of future benefit payments. Beginning in 2017, Social Security will start to redeem its government bond investments in order to pay full benefits. The federal government will need to find budget monies to redeem these bonds starting in 2017. Investing in equities, whether it is done through the trust funds or through individual accounts, could help to relieve these projected future demands on the federal budget.

How Could the Government Interfere in Individual Account Investments?

The belief that individual accounts would be insulated from government political pressures on investments is frequently based on two assumptions: (1) that the government would have little or no role in managing individual accounts; and/or (2) that individual account holders would resist government interference in investments, because individuals would be concerned about the impact on account performance. Yet neither of these assumptions is necessarily true.

As a starting point, most proposals for individual accounts readily accept that the government will place certain limits on an individual's investment choices. Already many proposals for individual accounts, whether managed by the government or by individuals under a decentralized system, would establish a new layer of government regulation to ensure that:

- the accounts are *not* invested in high-risk instruments, such as junk bonds;
- the accounts *are* invested in a specified stock market index, or in a specified portfolio mix of bonds and equities; and
- that any borrowing against account balances is conducted within prescribed limits.

In the debate over individual accounts, even proponents have little enthusiasm for allowing individuals to have unlimited discretion in choosing their retirement investments. If the government were interested in targeting investments, this oversight and regulatory role could serve as a mechanism for enforcing targeted investments, or excluding controversial stocks.

Many individual account proposals call for centralized government management of the accounts, along the lines of the federal employees' Thrift Savings Plan (TSP).[7] This is because of the potential for administrative costs to erode account returns: the average annual fee charged by mutual funds is about 1.5 percent of assets. By contrast, the TSP has managed to hold administrative and investment costs to about 0.07 percent of assets.[8] [9]

Under the TSP system, the federal government handles most of the administrative functions, and contracts most investment functions out to the private sector. The TSP invests the government securities fund itself, but contracts with private investment managers who invest the stock and bond investments. The government maintains the records of each individual's investment choices and how these investments performed.

Through its contracts with private investment managers, the government could enforce any number of restrictions on permissible investments, under a system of TSP-style individual accounts. To do this, the government would simply need to specify the particular investment terms under which it would award and maintain contracts with private investment managers.

Under a system of decentralized or "IRA-type" individual accounts, where individuals set up their accounts directly with private sector fund managers, a different mechanism could be used to enforce limitations on investment choices. Under the decentralized structure, the government could deny favored tax treatment to savings in accounts that did not meet specified social objectives.[10]

Government voting of stock proxies is another concern that applies to centrally-managed individual accounts (modeled after the TSP), even though the current debate generally connects this issue with trust fund direct investment in equities. Either situation could give the government direct influence over corporate governance policies. In both cases, the government would likely contract with private sector managers to handle the equity investments, so that the voting of shares would depend on the arrangements between the government and the private investment managers. The TSP has taken specific steps to address the voting of proxies, as will be discussed below.

Thus, individual accounts carry a risk of political interference in stock investments, whether the accounts are managed centrally by the government, or in an IRA-type system.

Would Individual Account Holders Resist Government Attempts to Direct Their Investment Monies?

It has been widely assumed that individual investors would form a sturdy bulwark against government interference in investment choices, because individuals would have close ties to their retirement accounts. The bond between an individual and his or her account would be established by "ownership" of account assets, by periodic account statements, and by the possibility of bequeathing the account balance to one's heirs. This would make it more likely that citizens would oppose measures that could affect their personal investment returns. By comparison, the argument goes, the electorate would remain passive in the face of a threat to OASDI's performance.

The advantage of individual ownership could be tempered by several considerations, however. These considerations include: whether the nation or powerful interest groups support a particular investment restriction; the extent to which individuals understand the impact of politically motivated stock picking on the risk-return trade-off; and the quality and quantity of available information on account performance.

First, whether or not individual account holders become concerned over an investment restriction depends in part on whether they support the policy behind the restriction. It is still possible to imagine a national consensus emerging in favor of excluding, for example, the stock of companies with close ties to rogue countries that injured their minorities, employed child labor, or invaded innocent neighboring states. It is also possible to imagine a national consensus, reflected in the Congress, behind a decision to support struggling airlines in the wake of an economic shock.

In fact, some argue that individual ownership of accounts could *increase*, not decrease, the pressure on Congress and the White House to limit or target investment choices.

> The [Individual Accounts proposal of the 1994-1996 Advisory Council] would appear to be more susceptible to political interference than the Maintain Benefits approach [investing the trust funds directly in equities], since many individuals would not want to have their forced savings accounts channeled into the stocks of corporations that they find socially unacceptable.[11]

Second, whether individual account holders become concerned over restrictions to their investment holdings depends on whether they understand the portfolio theory principle that less diversity within a portfolio can affect the tradeoff between risk and return. Even investors who are familiar with this concept might not become concerned, however, because diversification might not be affected by the elimination of just one stock from a broad-based portfolio of stock investments. In fact, some financial economists argue that as few as 30 stocks are necessary to achieve optimal portfolio diversification, given the costs of commissions and other transactions costs.[12] Hence from the account holder's point of view, prohibiting investment in a single stock would most likely have an insignificant impact on portfolio performance.

Third, many individual account holders may lack the information necessary to measure the effect of politically motivated stock-picking on their own investment returns. Some savvy individual account holders might compare their results to marketable mutual funds with comparable portfolios. For many less sophisticated investors, however, the necessary information could be hard to come by. For example, many individual account proposals mandate that individuals hold a specified mix of stocks and bonds. Any individual desiring to evaluate individual account performance against the market must have access to information on the returns to identical mutual funds in the private sector, adjusted for differences in administrative costs.

Thus, it is possible that investor anger could be spiked only in special circumstances: where a well-performing stock is eliminated; where many stocks are eliminated; or where account holders are required by the government to invest in the stock of an under-performing company in order to prop up that company or industry.

Would Congress or the President be less willing to interfere with the electorate's individual accounts than if OASDI held equities directly? The most that can be said is that, in the absence of effective insulating barriers, a consensus within the Congress could be all that was needed for Congress to direct OASDI to engage in politically motivated "stock picking." But before it restricted the investment choices in individual accounts, Congress might need to reassure itself of a national consensus, or at least support from a clear majority of the electorate. As noted earlier, the electorate itself might well bring such pressure to bear on the Congress or the White House.

What is Wrong With Government Intervention in the Stock Market?

In testimony before the Senate in January, 2001, Alan Greenspan stated:

> I believe, as I have noted in the past, that the federal government should eschew private asset accumulation because it would be exceptionally difficult to insulate the government's investment decisions from political pressures. Thus, over time, having the federal government hold significant amounts of private assets would risk sub-optimal performance by our capital markets, diminished economic efficiency, and lower overall standards of living than would be achieved otherwise.[13]

President Bush echoed this thinking when he instructed his Commission to Strengthen Social Security not to consider direct trust fund investment in equities.[14]

In what ways might the government be tempted to interfere in the stock market? The government could select winners, or it could select losers by penalizing "bad" companies.

Political pressures to select or eschew certain stocks could come from all points on the political spectrum. In particular, the pressure to eliminate or target certain stocks could come from citizens themselves. Concerned interest groups might not want their retirement savings invested in the stock of companies that operate third world sweatshops, employ children, publish pornography, or engage in stem cell research. These groups might bring pressure on Congress or the White House to eliminate such stocks from account portfolios. Other interest groups might support restrictions on investment in medical or drug companies that challenge right-to-life principles. Other groups might oppose investment in the tobacco industry, companies that are not friendly to the environment, or companies that do not provide adequate health or retirement benefits to their employees.

"Economically targeted investments," where the government invests disproportionately in the stocks or debt of an industry or firm that it wishes to support, are another potential concern. In the wake of the September, 2001 attacks, the airline industry successfully sought government support.

Government ownership of stock would also put the federal government in the position of voting stock shares. This could give the federal government direct influence over corporate governance policies.

Each of these concerns could lead to a suboptimal allocation of investment capital, and perhaps also to inappropriate corporate management decisions. As Chairman Greenspan has pointed out, the end result could be lower economic growth.

Although these risks have been widely debated in the context of proposals to allow OASDI to invest directly in equities, there has been little discussion of the fact that many of the same risks could attend a system of individual accounts.

Impact on the Stock Market and Economic Growth

The impact of political manipulation of the stock market on economic growth would depend in part on the share of the stock market that might be affected. Comparing individual account proposals with proposals to invest OASDI directly in equities, there is no clear answer as to which affects a larger percentage of market capitalization. The proposals must be analyzed individually. Certainly the magnitude of equity investment envisaged in several recent individual account proposals would have been significant.

The Clinton Administration proposed to invest up to 15% of the trust fund balances in equities, and to smooth the investments in incremental additions over 15 years. During the early years of the program, from 2001 to 2014, Social Security would have owned, on average, only 2 percent of the stock market. From 2015 to 2030, Social Security would have owned about 4% of the total stock market, on average, according to Clinton Administration projections.[15]

In comparison, Fidelity Investments held 3.3 percent of all U.S. equities at the end of 1999. Barclay's Global Investors held 2.1 percent of all U.S. equities.[16] At the end of 1996, state and local government pension funds held about 9.6 percent of the corporate equities outstanding. The general appraisal of this experience has been expressed as follows: "Although one can criticize some aspects of state and local government investment activity, they have hardly caused major disruptions of the equity market or distorted corporate decision-making."[17]

The 1994-1996 Social Security Advisory Commission (SSAC) estimated the magnitude of equity investment by 2020 under three alternative proposals. The first scenario called for investing up to 40 percent of the OASDI trust funds in equities: by 2020, OASDI's equity holdings would have amounted to $1.3 trillion constant (1996) dollars. The second SSAC proposal called for individual accounts funded by 1.6 percent of payroll: this proposal would have produced equity investments of $820 billion in 2020. The third and final proposal, which called for IRA-style individual accounts funded by five percent of payroll taxes, would have produced about $3 trillion in equity holdings by 2020.[18]

Hammond and Warshawsky estimated the share of stock market holdings under the three plans offered by the SSAC, using different assumptions about stock market growth. Their findings are displayed in Table 1.[19]

Table 1
Social Security Equity Investment as Percent of All U.S. Equities in Year 2020

	Assumed Growth of Stock Market	
	5%	**9%**
Invest up to 40% of OASDI in equities	4.9%	1.9%
1.6% Individual Accounts	3.0%	1.2%
5% Individual Accounts	11.1%	4.3%

The conclusion that can be drawn from this table is that recent individual account proposals had the potential to affect a smaller, equal or greater proportion of the stock market relative to investing OASDI directly in equities, depending on the scope of the particular proposal.

Ways to Mitigate Government Interference in the Stock Market

The concern over the potential for government interference in the stock market to reduce economic growth is a legitimate one, whether equity investment is accomplished through individual accounts or directly by OASDI. Yet the track record for existing government investment programs, at the federal and state levels, proves that this risk can be avoided by establishing several layers of insulating structures and rules.

The TSP and the pension plans of the Federal Reserve Board, the U.S. Air Force, and the Tennessee Valley Authority have pursued only financial objectives in selecting their portfolios, and they have not exercised any control over the companies in which they invest.[20] In a recent study of state and local pension funds, Alicia Munnell and Annika Sunden found that the vast majority of states does not engage in politically motivated investments. Only about 2.5 percent of state and local pension fund assets could be interpreted as reflecting political preferences, and divestiture for political reasons was largely limited to South Africa before 1994. Munnell and Sunden conclude that:

> In short, the story that emerges at the state and local level is that while in the early 1980s some public plans sacrificed returns for social considerations, plan managers have become much more sophisticated. Today, public plans appear to be performing as well as private plans.[21]

A study commissioned by CalPERS, the California Public Employees Retirement System, concluded that the U.S. equity investment returns of large public pension funds have matched or exceeded those of private pension funds over the ten years that ended in September 1998.[22]

The success of these government direct investment programs is due partly to careful attention in designing structures that insulate investment decisions from the political process. Some of these insulating mechanisms are described below.

Indexed Investment. Indexed investment is commonly regarded as a way to avoid both government stock-picking and active investment management, which can be costly as commissions mount. For these reasons, recent proposals for having OASDI invest directly in equities, and many proposals for individual accounts, would rely on stock market indices. Equity investments could be based on a broad market index, such as the S&P 500 or the Wilshire 5000. Investment managers who track an index buy most or all of the stocks in the index, in proportions that are in line with each stock's market capitalization.

Indexed investment does not necessarily provide a fail-safe guard against political interference in investments, however. First, an individual or board must devise the rule for including stocks in the index. While the rule is often a mechanical one, for example based on market capitalization, it does not have to be always or entirely mechanical. Second, investment managers who track a particular index often do not buy all of the stocks in that index.[23] Thus, indexed investments could be subject to a "no bad stocks" rule, or alternatively "economically targeted" stocks could be overweighted in the index basket. Index tracking concerns could be addressed by stipulating that any exclusions from the index should be undertaken only under pre-determined, mechanical cost considerations.

Independent Oversight Board. Other possible precautions include setting up an independent board to oversee the private sector management of investments. Such a structure would be equally appropriate in the case that equities were held by OASDI, or as part of a centrally managed system of individual accounts such as the TSP. For example, the TSP has an independent board consisting of five part-time members. The board appoints a full-time Executive Director.[24]

Members of the independent oversight board could be presidentially appointed and senate-confirmed, and could have long terms. Legislation could specify that the independent board had fiduciary responsibilities solely to Social Security beneficiaries, similar to those under ERISA and the TSP. The independent investment board could choose investment managers from the private sector through competitive bidding.

Policymakers could also stipulate that any change to the mechanisms that insulate equity investments from political interference would require the consent of two-thirds of the Congress. This rule appears in several proposals for government direct investment in equities.

Voting Stock Shares. Several options exist for ensuring that stock proxies are not voted with undue political influence. For example, in either OASDI direct investment or a TSP-like structure of individual accounts, the government or independent board could instruct the investment manager(s) to vote proxies in the same proportion as other shareholders (this might require changes in certain state laws, however). Alternatively, the government could leave the voting to the investment manager(s). The latter approach was taken by the TSP.

Proposals to have OASDI invest directly in equities have incorporated many of the very same insulating measures that might be appropriate for shielding centrally managed individual account investments. The similarity in insulating measures should not be surprising, given that both structures have centralized government management, and face similar risks of political manipulation of investments.

Conclusions

Individual accounts entail a risk that the government will intervene in investment decisions along political lines; they do not necessary shield against government political intervention in investments.

Consequently, individual accounts would need to be implemented alongside special mechanisms to insulate assets from pressures to favor some stocks over others, whether these accounts are centrally managed by the government or structured to resemble IRAs.

The mechanisms for reducing political interference are surprisingly similar for direct OASDI investment and individual accounts. The federal TSP system, which is often held up as a model for individual account administration, has pioneered the way in employing many of these insulating mechanisms. Such mechanisms can include an independent investment board that contracts with private sector investment managers, investment in broad market indices, and special rules for the voting of share proxies.

Endnotes

[1] For example, the Archer-Shaw Guarantee Plan, which would have set up centrally managed individual accounts, explicitly addressed the risk of political intervention by incorporating several safeguards into the account management structure. The accounts would have been managed by mutual funds that were qualified and supervised by a Social Security Guarantee Board consisting of six individuals appointed by the Social Security Trustees. All account balances would have been invested in a portfolio allocation of 60 percent stock index funds and 40 percent corporate bonds.

[2] After 2041, Social Security's only source of income will be the payroll tax, which will be sufficient to cover about 73 percent of benefit payments.

[3] John Geanakoplos, Olivia S. Mitchell, and Stephen P. Zeldes, "Would a Privatized Social Security System Really Pay a Higher Return?" in R. Douglas Arnold, Michael J. Graetz, and Alicia H. Munnell, editors, *Framing the Social Security Debate: Values, Politics and Economics*. Washington, D.C.: Brookings Institution Press, 1998. Table 4-5.

[4] Testimony by Lawrence H. Summers, Deputy Secretary of the U.S. Treasury, before the House Commerce Subcommittee on Finance and Hazardous Materials, March 3, 1999.

[5] OASDI could weather a stock market downturn for some time because it would retain a cushion of bond assets until 2041. Even after OASDI's assets are exhausted in 2041, OASDI will still take in sufficient payroll taxes to pay 73 percent of benefits, and 67 percent in 2075.

[6] Peter A. Diamond, "What Stock Market Returns to Expect for the Future?" Center for Retirement Research, Boston College, September 1999, number 2.

[7] The TSP is a defined contribution savings and investment plan that serves over two million federal employees. It offers participants a choice among several investment funds, including a common stock index fund, a government securities fund, a fixed income index fund, a small cap fund and a foreign stock fund.

[8] Laurel Beedon, "Social Security Reform: The Thrift Savings Plan (TSP) for Federal Employees," AARP Issue Brief #33, 1998.

[9] Frank Cavanaugh, the first Executive Director and CEO of the Federal Thrift Investment Board that manages the TSP, argues that the TSP's cost savings derive from institutional arrangements that could not be replicated in a centralized system of individual accounts. Cavanaugh argues that the TSP has achieved low administrative costs because of high average account balances (more than $40,000) and the large number of employees per Federal agency, which permits efficient use of relatively sophisticated personnel, payroll, and computer systems to process TSP information and transactions (private correspondence with AARP, May 14, 2001). It is very unlikely, however, that individual account proposals could attain the same low administrative costs, in part because of the much smaller initial size of the individual accounts. Additionally, most employers are far from achieving the economies of scale enjoyed by the government employing agencies: more than 80 percent of employers report to the Social Security Administration on paper. Current administrative expenses per employee in 401(k) companies with ten employees are approximately $300, and the average Social Security employer has less than ten employees.

[10] Henry J. Aaron and Robert D. Reischauer, *Countdown to Reform: The Great Social Security Debate*, Century Foundation, 2001, page 123.

[11] Francis X. Cavanaugh, discussant of paper by Theodore Angelis, "Investing Public Money in Private Markets: What Are the Right Questions," in R. Douglas Arnold, Michael J. Graetz and Alicia Munnell, editors, *Framing the Social Security Debate: Values, Politics and Economics* (Washington, DC: Brookings Institution Press, 1998).

[12] Meir Statman, as quoted in Ross, Westerfield and Jaffe, Corporate Finance, Irwin MacGraw-Hill, 1999, page 249.

[13] Testimony of Alan Greenspan, Chairman of the Federal Reserve Board, before the Committee on the Budget, U.S. Senate, January 25, 2001.

[14] The White House, Executive Order No. 13210, May 2, 2001.

[15] Summers, 1999.

[16] Alicia H. Munnell, private correspondence, April, 2001.

[17] Alicia Munnell and Pierluigi Balduzzi, *Investing the Social Security Trust Funds in Equities*, AARP Public Policy Institute, 1998.

[18] Advisory Council on Social Security Reform, *Report of the 1994-1996 Advisory Council on Social Security*, Washington, D.C.: Department of Health and Human Services, Volume I, Appendix II, Table "Stock," page 197.

[19] P. Brett Hammond and Mark J. Warshawsky, "Investing Social Security Funds in Stocks," Benefits Quarterly, 1997, 13 (3), pp. 52-76.

[20] Aaron and Reischauer, 2001.

[21] Alicia Munnell and Annika Sunden, "Investment Practices of State and Local Pension Funds" Implications for Social Security Reform," Center for Retirement Research, Boston College, CRR WP 1999-01, April 1999.

[22] James E. Burton, Chief Executive Officer, California Public Employees Retirement System, "Public Pension Funds Success Ignored in Social Security Debate," 1998.

[23] In fact, it may be unreasonable to mandate that investment managers buy all of the stocks in a particular index, because of the high brokers' commissions involved. Moreover, the smaller stocks, particularly those that are closely held, can be difficult to purchase in any quantity. Consequently, full replication of a broad market index can increase the cost of managing investment portfolios. For these reasons, investment managers who track the broadest market indices often do not buy all of the stocks in that index. Instead, they rely on statistical methods to create a portfolio that replicates the performance of the chosen index. Generally, the Wilshire 5000 is sampled, but the S&P 500 is fully replicated.

[24] The five part-time board members are appointed by the President and confirmed by the Senate for overlapping four-year terms. One board member is recommended by the Speaker, one by the Senate majority leader, and the rest are recommended by the White House. The full-time Executive Director is selected by the Board, has an unlimited term, and is not subject to approval by the President or Congress.

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