THE FUTURE OF SOCIAL SECURITY FOR THIS GENERATION AND THE NEXT: MEMBERS OF CONGRESS AND BUSINESS LABOR GROUPS

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

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SUBMISSIONS FOR THE RECORD

THE FUTURE OF SOCIAL SECURITY FOR THIS GENERATION AND THE NEXT

THURSDAY, JULY 10, 1997

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON SOCIAL SECURITY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 1:04 p.m., in room B–318, Rayburn House Office Building, Hon. Jim Bunning (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON SOCIAL SECURITY

FOR IMMEDIATE RELEASE CONTACT: (202) 225–9263
June 27, 1997
No. SS–7

Bunning Announces Fifth Hearing in Series on "The Future of Social Security for this Generation and the Next"

Congressman Jim Bunning (R–KY), Chairman, Subcommittee on Social Security of the Committee on Ways and Means, today announced that the Subcommittee will hold the fifth in a series of hearings on "The Future of Social Security for this Generation and the Next." At this hearing, the Subcommittee will examine the views of Members of Congress and representatives of business and labor groups on Social Security reform. The hearing will take place on Thursday, July 10, 1997, in room B–318 Rayburn House Office Building, beginning at 1:00 p.m.

In view of the limited time available to hear witnesses, oral testimony will be from invited witnesses only. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

Various approaches have been proposed to restore Social Security's financial solvency ranging from maintaining the program's current structure to revamping the system entirely. The Subcommittee's first four hearings in the series have focused on the recommendations of the Advisory Council on Social Security, the fundamental issues to consider when evaluating options for Social Security reform, the findings of the 1997 Social Security Board of Trustees, and the views of policy experts and organizations with different generational perspectives on Social Security reform.

In announcing the hearing, Chairman Bunning stated: "Members of Congress probably hear more about Social Security from their constituents than any other issue around. And for that reason, Members of Congress are very much aware of the widespread uncertainty about the future of this vital program, very much aware of how important the program is to senior citizens, and very much aware that when we get to the bottom line it is going to be their responsibility to make the changes necessary to restore Social Security's long term solvency.

"So, it makes sense to me that we bring as many Members of Congress into the process as possible and take advantage of any suggestions or proposals they might have to offer. Since they are going to be on the firing line when we have to make the tough choices, we ought to hear their recommendations before we start lining up the options.

"On the other hand, no one has any more at stake in the debate over Social Security reform than the employees and their employers who are paying the taxes that keep the program going. No matter what we do to change Social Security, it is going to have a direct impact on these two groups. They should have an opportunity to have their voices heard in this process."

FOCUS OF THE HEARING:

The Subcommittee will receive the views of Members of Congress on Social Security reform. Representatives of business and labor will also present their perspectives. Specifically, Members of the Subcommittee would like to hear the views of each individual regarding: (1) the degree to which Social Security reform is necessary, (2) an assessment of the Advisory Council recommendations and other reform proposals, (3) specific recommendations for Congress to consider as it moves forward, and (4) how soon Congressional action is needed.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at leastsix (6) single-space legal-size copies of their statement, along with an IBM compatible 3.5-inch diskette in ASCII DOS Text format only, with their name, address, and hearing date noted on a label, by the close of business, Thursday, July 24, 1997, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Social Security office, room B–316 Rayburn House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments. At the same time written statements are submitted to the Committee, witnesses are now requested to submit their statements on an IBM compatible 3.5-inch diskette in ASCII DOS Text format.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at ‘HTTP://WWW.HOUSE.GOV/WAYS__MEANS/’.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Mr. BUNNING. I am going to bring the Subcommittee to order and, unofficially, officially hear Senator Gregg, who has been so gracious as to wait for a second member to show up.

I was going to have opening remarks. I will put them in the record by unanimous consent.

[The opening statement of Mr. Bunning follows:]

Opening Statement of Hon. Jim Bunning

Today Marks our fifth hearing in the series on "The Future of Social Security For This Generation and The Next." We will hear testimony from Members of Congress and representatives from business and labor groups.

Social Security is probably the issue that Members of Congress hear about more than any other from their constituents. Since we are very much aware of the widespread uncertainty about the future of Social Security, I think it's imperative to bring into the picture the reform measures proposed by our own colleagues.

We—the Members of Congress—are going to be on the firing line when it comes time to make the tough decisions on Social Security reform, so we ought to hear our colleagues' recommendations before lining up the options.

No one has more at stake in the debate over Social Security reform than the employees and their employers who are paying the taxes that keep the program going. No matter what we do to change Social Security, it is going to have a direct impact on these two groups. They, too, will have an opportunity to voice their opinions today.

Mr. BUNNING. I will welcome Senator Gregg. You may begin.

STATEMENT OF HON. JUDD GREGG, A U.S. SENATOR FROM THE STATE OF NEW HAMPSHIRE

Senator GREGG. Thank you, Congressman. It's a pleasure to have a chance to testify before your Subcommittee. I congratulate you for stepping into this issue aggressively and being a leader on the issue of how we make our Social Security system solvent for our seniors today and our seniors tomorrow.

It is also a pleasure to see one of the participants in this hearing, Congressman Stenholm, who along with Congressman Kolbe and myself and Senator Breaux, are chairing a working group of Members and outside experts, under the auspices of the Center for Strategic and International Studies, CSIS, to try to develop some strategies for how we address the Social Security problem.

I wanted to speak today, however, briefly—and I will make it brief, because I know there are a lot of people who want to catch your ear on this—on a bill which I have introduced to try to address the problem of the Social Security projected crisis.

Now, it's not a projected crisis; it's a real crisis. Projected is certainly the wrong word to use. In fact, if we were able to predict a date for an earthquake, a date for a flood, a date for a hurricane to come ashore that would be extraordinarily disastrous, we would obviously anticipate and take action to correct that.

Well, we can predict the date for a massive financial catastrophe which is going to confront this Nation, and that date begins in about the year 2010 and works well into the next century. It's a function of demographics, which we all know—and I won't quote them again because this Subcommittee is as familiar as anybody with them—but the fact is that the postwar baby boom generation creates a demographic shift of historic proportions which makes it almost impossible for us, under our present system, to finance the Social Security as it's presently structured.

Thus, we will have to make changes. We will either have to make them at that time, or we will make them now and begin to plan for that. It's like the Fram oil filter ad. "You can pay me now, or you can pay me later." The sooner we start to act on it, the better the chances are that we're going to be able to effectively address the problem. The later we wait to take action, the worse the problem will be and the harder it will be to address.

The issue here is—and I know this Subcommittee recognizes it—is that Social Security is on a pay-as-you-go basis. As such, as you reduce the number of payers into the system, as the population shifts, it becomes less and less sustainable. Thus, we have an unfunded liability under the Social Security system of literally trillions of dollars, trillions of dollars.

The way to address this is to start to prefund the liability, to allow people to save for their retirement, rather than having them get to retirement and find that the working Americans are not enough and are not able to generate enough to support the retired Americans.

So my bill does three things which would correct the insolvency of the system. In fact, if my bill was passed, it would resolve the long-term actuarial imbalance of the system almost completely.

The three major things that it does is, first—well, there are some things it doesn't do. First, it doesn't raise payroll taxes, which would be a very serious mistake. But the three major things it does is, first, it allows the beneficiaries of the system today—the younger beneficiaries, those under the age of 50, and especially under the age of 45—to begin to invest a percentage of the Social Security taxes that they're now paying in private accounts, much like IRA accounts or the TSP, Thrift Savings Plan, accounts.

The amount which we allocate to this type of private, prefunded investment is the amount by which the Social Security system is today running a surplus, or approximately $29 billion, or approximately 1 percent of the payroll tax. So we reduce the payroll tax to wage earners by 1 percent, and we allow them to take that 1-percent reduction, moving it from 7.5 down to 6.5, and allow them to invest it in a private savings vehicle.

This has absolutely no impact, absolutely no impact on the present recipients of Social Security, because this is the surplus which is presently being used not to benefit Social Security recipients but to operate the Federal Government.

The question becomes, well, are people who are going to invest in the private sector going to be able to do better than if they put their money into the Social Security Trust Fund? Yes. There is no question. That's the definitive answer to that question.

This chart over here sort of reflects that. If you will notice, under the present Social Security Trust Fund, a person investing in their own Social Security account has to get about a 3-percent return. That's about what they need to get. In order to beat a 3-percent return, if somebody simply puts their money into a savings account and allows it to compound, they beat that. But, for example, if they were to put it into one of the Federal savings vehicles, like the C fund under TSP, their return is 16 percent, the S&P 500 return is 15 percent, and the F fund is 8 percent, and the G fund is 7.6 percent. So you can see that it's not very hard for somebody to beat the Social Security return.

If they are able to beat the Social Security return, which becomes easier and easier as the number of people retiring increase and fewer people pay into it, then they will be in the process of prefunding the liability, and that is what is absolutely essential, that we allow people to begin the process of saving for themselves so that they can offset the fact that the Social Security fund is not going to be able to support them in the manner in which Social Security recipients today are able to be supported.

In addition, my bill does two other major things. It changes the Consumer Price Index, CPI, to make it more accurate to reflect inflation, and it also changes the bend points that we have more of an affluence tested beneficiary system.

This is the proposal. It's a hybrid of a lot of other proposals that are out there. It's affordable and, most importantly, it will work, which is what we should be concerned with.

Thank you very much, Mr. Chairman.

[The statement and attachment follow:]

Statement of Hon. Judd Gregg, a U.S. Senator from the State of New Hampshire

Thank you, Mr. Chairman, for this opportunity to testify before the Subcommittee on Social Security. As you know, I have been deeply concerned about the future of Social Security, and I have been energetically involved in a variety of efforts to keep the promise of Social Security for future generations as it has been kept for current and past ones.

Mr. Chairman, if this nation were to receive advance warning of a major catastrophe—a hurricane, a tornado, or a volcanic eruption—we would strain every effort to prepare for its effects. Unfortunately we don't often receive that advance warning, and we are left instead with the enormous costs of dealing with catastrophes after they occur. But right now we are in possession of information about a vital threat to our nation's economic future, and we will be sorely remiss if we do not act to avert it.

This crisis, Mr. Chairman, will result largely from an enormous demographic shift—the retirement of the baby boom generation and the aging of America generally. It will be felt not only in Social Security, but in Medicare, in private pension systems, and every other method that our society uses to care for our citizens as they age.

I know that this Subcommittee has already looked deeply into this problem and that there is little need for me to describe the details of the projected crisis here, but I do think it is important that certain points be made. First of all—and it is unfortunate that I should even have to say this—the crisis is real. I hope that this subcommittee will not be misled by the various attempts to say that this is not a crisis, or that it can simply be met by waiting, and tinkering around the edges of current programs, after which everything will be fine. Everything will not be fine. Under current law, Social Security and Medicare Part A alone—to say nothing of Medicare Part B—will absorb more than 25% of the national payroll tax base within a generation. We simply cannot pass that burden off to future American workers, with no pre-funding, no attempt to reduce the size of that burden, no recognition of their potential need to divert resources toward a military or an economic crisis—and still expect them to achieve the American dream. To leave such a legacy to posterity would be an utter refutation of the founding principles of our nation.

Do not be misled by various attempts to minimize the size of this problem. In all likelihood, the problem will be worse than a first glance at the statistics might imply. It is said that the current deficit in Social Security is "only" 2.2% of taxable payroll. This underestimates the severity of the program's problems. In reality, there are surpluses in the near term—which, I would add, are being spent, not saved—and enormous deficits in the out years—greater than 5% of the payroll tax base—that we have no means of funding. We could not, even if we wished, solve the problem by simply hiking payroll taxes by 2.2%. That would merely increase the size of the current surplus on paper, and do nothing to fund the enormous liabilities awaiting us in the future. These liabilities project into trillions of dollars on an annual basis.

Mr. Chairman, this is no time to engage in wistful nostalgia for a time when these programs may have been better suited for our national needs. Social Security was not built for an enormous demographic shift of the kind we will see. It was built on the assumption that each generation of Americans would have enough children to provide for them in their old age. Instead, we are living more years in retirement, and too many of us are having fewer kids. We have to re-think how these programs are structured. We have to retool the Social Security program so that it is capable of providing advance funding for retirement income needs that are too large to simply pass off to future generations.

Earlier this year, Mr. Chairman, I introduced Senate Bill S. 321, the Strengthening Social Security Act of 1997. The bill would do three things. First, it would refund one payroll tax percentage point into personal investment accounts, which would build real retirement savings, and could not be spent or invested by the government. At the same time, corresponding changes in the bend point formulas would be made to adjust for the reduced liability to the federal government that should result from refunding this portion of the Social Security system into private accounts. Secondly, the bill would reduce CPI by 0.5%. Thirdly, the Social Security eligibility age would be gradually raised to 70 by the year 2029, and indexed to life expectancy thereafter.

I would like to say a few words not only about the details of the bill, but what is more important, the philosophical basis behind the decisions that I made. I believe we need to come to a consensus soon about the ground rules for reform, as a means of facilitating our decision-making. Perhaps Congress in its wisdom will decide that my plan is the best one; perhaps not. But I do believe that we must agree early in the process on certain principles of reform that will enable us to devise a fair and far-reaching solution.

The first principle, Mr. Chairman, is that this problem should not be solved, and cannot be solved, by increasing payroll taxes. The reasons for this are practical as well as philosophical.

- First, because it will have no helpful practical effect. If you increase payroll taxes in the short term, and this simply increases the size of a surplus that is invested in government securities, you have not done anything to ameliorate the future problem. Future generations will simply be asked to redeem a larger number of Treasury bills with their general taxes.
- Second, because it would worsen the deal for those Americans who already are treated unfairly by the Social Security system. Under current law, an individual's rate of return on his Social Security investment worsens with each succeeding birth year. Raising payroll taxes would only make the system more unfair, and seriously undermine political support for the program by making all working Americans losers in the game.
- Third, it would undermine the general goal of protecting retirement income. This nation has a tremendous need to simultaneously increase funding of both the Social Security system and private retirement saving. If you increase payroll taxes on employees and employers, they will be less able to produce retirement savings, and the task of increasing retirement security will be made more difficult.
- Fourth, there is simply no way, politically, that this will be an acceptable solution. Medicare, also funded through payroll taxes, will remain in more severe fiscal straits than Social Security. If Congress can't raise payroll taxes to fund Medicare, it certainly cannot raise taxes to fund Social Security.
- And fifth, of course—it is simply bad economic policy.

I stress these points, Mr. Chairman, because they underscore why Congress must act soon to address this problem. If Congress waits until the last moment to correct Social Security, it will have almost no options left except a tax increase, which is unacceptable for all of the reasons I have outlined. We must take the opportunity now to restructure the program now in a way that leads to fair and responsible reform, and which lessens the chance of more costly, unfair changes that would be the only result of delay.

A second principle, Mr. Chairman, is that reform must be fair to all generations. There is a burden to be borne here, and it need be borne equitably. Many young people today believe, and justifiably so, that Social Security is not a "fair" deal for them. The rates of return enjoyed by different generations vary wildly according to their birth year. It is no wonder that Social Security has been popular among current and late retirees, for these Americans enjoyed an enormous windfall through the program. A young single male today, by contrast, can expect to lose money through the Social Security system. We cannot, Mr. Chairman, pursue avenues of reform that worsen the deal for young Americans. To do so would be to place the program in severe political jeopardy. No such program can be sustained if everyone thinks that they lose through it.

This is an important principle, because it will guide our range of available responses. Simply hiking the payroll tax, or mindlessly cutting future benefits, would be tremendously unfair to the young Americans who are being treated the worst by the Social Security system. Although I believe that we need to increase the Social Security age of eligibility, we must also combine this measure with structural reforms of the system, else we will do little more than to worsen the deal at the expense of those who can afford it least.

Third, we must reform this program in a way so that it is sustainable in the long run. This means that the obligations of the program cannot continue to grow, indefinitely, faster than the economy can keep pace with them. We must remember that Social Security does not exist in isolation. Medicare is experiencing even more severe problems. The private pension system will also experience strains. None of these three components of retirement security must be permitted to weaken the others by absorbing national resources in a way that reduces the nation's capacity to provide for the others.

I have come to an additional conclusion, Mr. Chairman, regarding the critical elements of Social Security reform. We must transform this program into a genuine saving program if it is to provide for the retirement income needs commensurate with the coming demographic shift. Simply put, we cannot meet such needs on a "pay as you go" basis. But "pay as you go" effectively describes any system in which the assets are invested solely in government securities. If we take surplus Social Security taxes—as we do under current law—and instead of saving them for future needs, simply invest them in current government consumption, then tomorrow's bills will simply be picked up by the taxpayer who has to redeem those government securities with his taxes.

The only way to "pre-fund" for the coming Social Security liability is to invest the Social Security surplus somewhere other than in government securities. This is why I have included a personal investment account component in S. 321—a refund of one percentage payroll tax point into personal accounts. If we do not shelter these contributions in this way from government spending, then they will not be set aside to generate real assets for retirement. Every year that we wait, and continue to spend the surplus in this way, represents an enormous additional liability that we must fund in the future through general taxation.

If we were to pass S. 321 today, we would solve 85% of Social Security's solvency problem, and we would reduce enormously the unfunded liability of the Social Security system, converting some of it into a pre-funded liability. We would also, in all likelihood, vastly improve the rate of return for individuals participating in the system.

A personal investment account component is important for multiple reasons. One is to protect these contributions for their intended purpose, by shielding them from being spent by government. Another is to provide the potential for an individual to improve his rate of return on his Social Security investment.

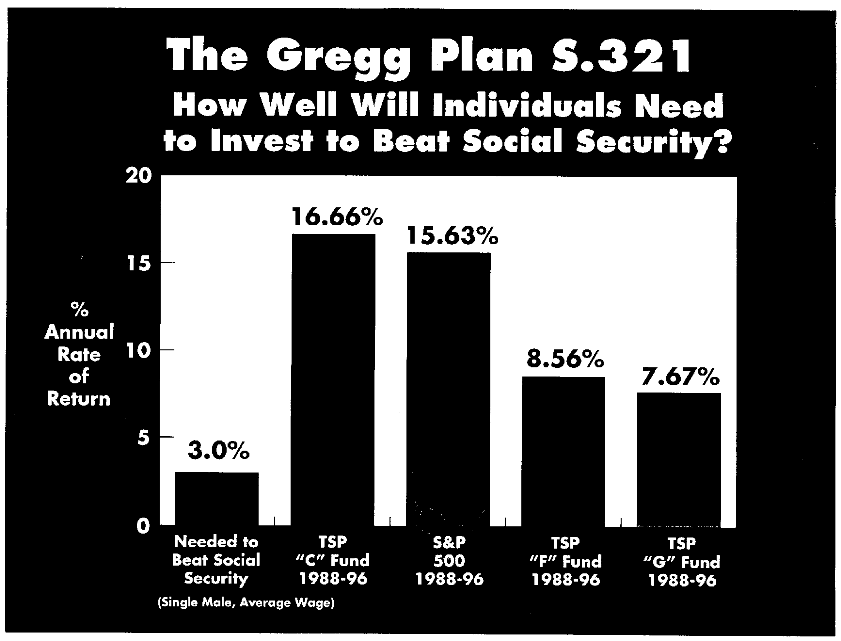
Many have wondered whether individuals can be trusted to make investment decisions with a portion of their Social Security payroll tax. I think a better question is whether the government can be trusted to make the best use of that money. Under current practices, the answer is clearly "no."

I have run the numbers on my program to see how well individuals would have to do in their investments, in order to do better than under the current Social Security system. The Gregg plan would eliminate 85% of the current Social Security deficit. If you compare this method with more traditional means of "fixing" Social Security—for example, benefit restraints in the Social Security Advisory Council's Gramlich plan, to an extent that also eliminates 85% of the actuarial deficit—it is easy to see that an individual need not be a financial genius in order to do better investing the money himself. For example, the average single male, under the Gregg bill, would simply have to earn 3.0% interest on his account in order to do better than traditional fixes to the program. 3.0%! A cautious individual could simply buy a certificate of deposit and get that, and thus do better than in Social Security. A single female would have to earn 3.8%. Social Security is simply not a good investment. It is not difficult to do better. In fact, it will be hard for individuals, investing on their own, to do worse.

My plan also includes provisions to adjust CPI and the eligibility age. Let me stress to this subcommittee: if you don't like these provisions, then consider what will happen if we do not act now to re-direct the Social Security surplus. If we fail to take advantage of the existing surplus, we will vastly increase the pressure on "traditional" fixes, and make it much more likely that such adjustments will be necessary—in fact, more will be necessary.

Congress will need to weigh competing concerns in pursuing Social Security reform. The larger the personal accounts, the greater the potential to increase the rate of return on one's Social Security investment. But at the same, time, the larger the accounts, then the greater the amount of revenue that you are denying to the federal treasury each year. The Gregg bill would have refunded roughly $29 billion into personal investment accounts. Had we tried, we might have been able to direct this year's budget reconciliation tax cuts into tax relief of that specific kind. Congress chose not to. It may be politically difficult to pursue significantly larger personal investment accounts, given the amount of revenue that the federal government would have to sacrifice each year. Congress must find the proper balance between the federal government's short-term revenue needs, and the long-term improvement in the Social Security system that would arise in rough proportion to the amount of "prefunding" that we create within it.

I thank you for this chance to describe my plan, Mr. Chairman, and I invite any questions that you and the rest of the subcommittee may have.



Mr. BUNNING. Thank you, Senator, for your testimony. We appreciate your being here. I'm sorry that we started a little late.

Senator GREGG. No problem. I appreciate your time.

Mr. BUNNING. Thank you.

The next panel is Congressman Stenholm, Congressman Kolbe, and Congressman Peter DeFazio.

I want to let the Subcommittee Members know that, since we have over 20 Members that want to testify, we are not going to question the Congressmen. We're going to let them put their statements on the record, and we appreciate your being here.

Charlie, if you would start, we would appreciate it.

STATEMENT OF HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. STENHOLM. Thank you, Mr. Chairman, and Members of the Subcommittee.

I often say that if you eat, you're involved in agriculture. My life's work as a farmer, an agriculture teacher, electric cooperative manager, and as a Member of the House Agriculture Committee, has persuaded me that this is true.

Today, as a father, a grandfather, and as the Congressman of the 17th district of Texas, west central Texas, I must say that if you breathe, you are involved in the future of Social Security. And it is our responsibility as the elected representatives of all Americans—the old, the young, and those in between—to protect the Social Security Program for today's beneficiaries and preserve it for future beneficiaries. We must do nothing less.

In August, 1995, we passed an important milestone: The Social Security system turned 60. While some may disagree about the relative success of this program, I can look from one end of my congressional district to the other—and, by the way, according to the Social Security Administration, I have a greater number of Social Security retirement beneficiaries in my district than in any other congressional district in Texas—and I can see it has kept generations of seniors out of poverty.

In a part of Texas where the family income of almost 50 percent of my constituents is less than $25,000 a year, keeping seniors out of poverty is an important goal. You don't have to do much to convince me that Social Security is one of the most successful Federal programs ever conceived.

But something else happened in August 1995. I passed an important personal milestone: I became a grandfather for the first time. Mr. Chairman, I have spoken for years about the need to balance the Federal budget, to cut wasteful spending, and to preserve the American dream for future generations. But when I look into the eyes of young Cole Stenholm, more than ever before I know that I now have an obligation to protect his interests and the interests of those who are too young to speak for themselves.

Today, all evidence points to a significant financial shortfall for Social Security in the not too distant future. The Social Security and Medicare Board of Trustees, which included three Clinton cabinet members, has reported that the Social Security Trust Fund will be bankrupt in the year 2029. And even more alarming, as soon as 2012, the Government will begin paying out more in benefits than it is collecting in payroll taxes.

In 2012, the Federal Government will begin redeeming the Treasury bounds to the Social Security Administration so it can continue to pay benefits. The reality of this circumstance is clear. In order to continue current benefits, we will be forced to increase workers' payroll taxes, decrease retirees' benefits, or the Federal Government will be forced to make deeper cuts in spending on other programs. Simply put, in 2012, when the Federal Government begins redeeming its bonds, it will have to make up the difference elsewhere in the budget, and the question will be, at whose expense?

It is true that the Social Security Trust Fund, which currently has accumulated $450-plus billion, will not be bankrupt until 2029. But we shirk our responsibility if we ignore the dangers we will face as soon as 2012. And every year we wait to begin attacking the problem makes it that much harder.

It is also evident that changes in demographics will accelerate the problems the Government will have to face to ensure a continuation of Social Security. In 1935, no one anticipated the baby boom or baby bust. Just over a decade later, World War II was over, and the attendant baby boom began. Between 1946 and 1964, birth rates soared and 75.9 million new Americans were born. That's more than the entire populations of most nations, including the United Kingdom and France.

Great advances in medical technology also have significantly increased the lifespan of all Americans. In 1935—we all know the facts and figures.

Unfortunately, these issues are complicated. A discussion of demographics, rates of inflation, bend points, life expectancy, rates of return, or the consumer price index, causes most to reach for the remote control to change their television channels. However, the threat is real and, in an age of sound bites and 3 minute news stories, we must begin to be honest with the American people and provide them with the whole story and not just the sexy or scary one-liner.

These circumstances prompted my colleague, Jim Kolbe, and me, in August 1995, to start the House Public Pension Reform Caucus as a bipartisan means of educating House Members and their staffs about the intricacies of the Social Security system. As a caucus, we work to inform and educate. We do not yet endorse any specific reform option. But today we have 74 Members, from both sides of the aisle, of which there is one major point and conclusion I make: A solution to our Social Security problem, or opportunity, as I like to call it, must be bipartisan. That is why I was happy to join with Jim Kolbe, and you'll hear from him on some of the additional points that we're making.

Additionally, the Pension Reform Caucus has started a small working group, comprised of four Republicans and four Democrats. This working group will sift through the various reform proposals and work to formulate a legislative alternative.

We look to work with you, Mr. Chairman, and other Members of the Subcommittee, to try to be helpful with your Subcommittee as you address this very important problem for all Americans, but particularly for my grandson.

Thank you, Mr. Chairman.

Mr. BUNNING. OK, Charlie. I have 31 of them, so you've got 30 more to go.

Mr. STENHOLM. Mr. Chairman, might I make one comment?

Mr. BUNNING. Certainly.

Mr. STENHOLM. I have noticed every time, the only time I get to talk about my one grandchild is when I have the mike. As soon as I use it, somebody else talks about more than one. [Laughter.]

You have proven me to be 100-percent correct.

Mr. BUNNING. I'm worried about those 31 just like you are for the one.

The Honorable James Kolbe.

STATEMENT OF HON. JIM KOLBE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. KOLBE. Thank you very much, Mr. Chairman. I applaud you and your Subcommittee for holding this hearing. I think it's very good that you are convening this series on Social Security reform.

I think that reforming the Social Security Program is the single most important issue which faces us as Members of Congress, this Congress and the next Congress or two. At one time it was considered taboo for any of us to talk about Social Security. It was the "third rail" of politics.

Well, I really think the tide has turned. In fact, I believe very shortly it's going to be the other way around, that Congressmen who ignore talking about this issue are going to be the ones that will be politically in danger. The American people understand that the Social Security Program is in trouble and it needs to be fixed. They don't want to hear demagoguery about the issue. They want to hear people talking about real responses.

If we make the right kind of changes, if we make the right kind of reform, we can not only provide our elderly with continued support, but enable young people to feel secure. And we can also have an infinitely stronger country as well. We can preserve the contract, strengthen the contract, be a model for the rest of the world.

Charlie Stenholm has discussed in detail a lot of the problems with the Social Security Program, and you people are very well aware of those, so I'm not going to elaborate. But it is important to note that the United States is not the only country that is facing a bankrupt retirement program, or the retirement of a baby boom generation. This is a phenomenon that is seen throughout the world as these countries face similar aging populations.

But many of those countries have begun to address the problem, the impending retirement of an ever-growing elderly population. Some Latin American countries, notably Chile, and now Argentina, have introduced fully privatized programs. Great Britain has phased in a two-tier public-private pension system for its citizens. Even Poland took the first courageous step to address demographic and financial problems facing its country.

Although the entire world is faced with an insecure retirement for the elderly population, the main difference between the United States and these countries is our willingness to take action. I believe, however, the tide is turning, evident by today's hearings and the number of Members who have stepped forward to express their support for real and meaningful reform.

There are a lot of things that I think we should keep in mind as we prepare for this coming debate. Perhaps one of the most important ones is this is not the first time we've been faced with these dismal numbers. We have an opportunity to learn from our mistakes in the past.

Social Security's 62-year history proves that one more tax hike is never enough. Since the first Social Security tax was levied in

1937, Congress has raised the tax rates more than 20 separate times. Taxpayers were assured that the tax hikes authorized by Congress in late 1977 would restore the financial soundness throughout the next century. And yet, just 6 years later, in 1983, they were faced with more dismal projections for the Social Security Trust Funds.

We need to get off the treadmill of increasing taxes and reducing benefits. The treadmill we're on today is very simple. We go for the quick fixes again, we fall for the rhetoric that if we make a few changes, the system will go on forever, and we're only going to repeat the dismal pattern that we've seen for the last 25 years.

The system really is broke, financially, and morally. So the question is, how do we get off of this treadmill, reform the Social Security Program, protect senior citizens, and assure a secure and reliable retirement for our children and grandchildren.

So where do we go from here? Charlie said that the Caucus has began our educational groundwork. The next step is to begin discussing Social Security reform options, and he talked about our working group that is doing that.

Mr. Chairman, it is our desire to work with you, the authorizing Committee, the Committee of jurisdiction here, your Subcommittee Members and the Full Committee Members, and your staff, to work on this important project.

Even the President has acknowledged that Social Security reform is needed. In a Wall Street Journal interview, President Clinton said that he envisions reform either this year, following passage of the Budget Reconciliation bill, or some time next year. I hope we're able to work together to achieve that reform.

Certainly the options are plentiful. Many outside organizations have introduced reform proposals, including the Center for Economic Development and the National Taxpayers Union. We have worked with both of those groups.

However, some of the most important recommendations were developed by the 1995 Social Security Advisory Council, which released its report last January. It was given the task of studying and making recommendations on the long-range financing of Social Security, and the adequacy and equity of the program for current and future generations. It offered three separate reform options. Some people criticized that because there were so many different ones. But I think the fact that they all focused on one thing—that is, that we need to use the private market to help ensure long-term solvency of the program—is the more significant issue. As the country continues to change and modernization continues, we have to look for the best structure for Social Security for today's society. We don't depend on typewriters to communicate with each other in the workplace any more; we don't get our news from only radio. The advancement of technology has given us computers and television.

Legislation has been introduced in Congress. I admire and must mention the courageous efforts of our Senate colleagues, Senators Kerrey and Simpson, who introduced bipartisan legislation to reform Social Security during the last Congress. That legislation should also be a model for future reform alternatives.

Like many of the Advisory Council proposals, the Kerrey-Simpson plan would divert a portion of payroll taxes into a privately owned account, giving individuals control over their retirement. Today you've had Senator Gregg talk about his reform options, and I think those are some ideas that we should consider.

Mr. Chairman, we believe that real and meaningful Social Security reform can be accomplished. We will continue the education process, we will work with all the parties, the American people, both young and old, to ensure that Social Security is a good deal for all generations. I applaud your efforts to do the same.

Thank you, Mr. Chairman.

[The joint statement follows:]

Joint Statement of Hon. Charles W. Stenholm, a Representative in Congress from the State of Texas; and Hon. Jim Kolbe, a Representative in Congress from the State of Arizona

Mr. Chairman, Members of the Social Security Subcommittee: We appreciate this opportunity to appear together before you today as the co-chairs of the bipartisan House Public Pension Reform Caucus.

In August 1995 we passed an important national milestone: The Social Security System turned 60. While some may disagree about the relative success of this program, we believe it has more than fulfilled its original purpose of keeping generations of seniors out of poverty. Marking this important milestone gave us cause to stop and consider the future of the Social Security program. As you know, the years ahead hold many challenges for Social Security.

Today, all evidence points to a significant financial shortfall for Social Security in the not-too-distant future. The Social Security and Medicare Board of Trustees, which included three Clinton cabinet members, reported that the Social Security trust fund will be bankrupt in the year 2029. And, even more alarming, as soon as 2012 the government will begin paying out more in benefits than is collected in payroll taxes.

Many policy analysts minimize the significance of the 2012 date when retirement benefits begin to exceed payroll taxes. They argue that the Social Security Trust Fund portion which pays for old-age pension benefits is composed of the cumulative surplus in payroll tax revenues plus interest accumulated from investing those funds in Treasury bills. Well, we don't deny this fact. It is true that the Social Security Trust Fund, which currently has accumulated $450 billion, will not be bankrupt until 2029. However, we dare not ignore the dangers we will face in 2012.

In 2012, the federal government will begin redeeming the Treasury bonds to the Social Security Administration so it can continue to pay benefits. The reality of this circumstance is clear. In order to continue paying retirees' benefits without increasing workers' payroll taxes or decreasing retirees' benefits, the federal government will be forced to make deeper cuts in spending on other federal programs including, but not limited to, defense, medical research, park maintenance, and education in order to redeem the Treasury bonds held by the Social Security Trust Fund. Simply put, in 2012, when the federal government begins redeeming its bonds, it will have to make up the difference elsewhere in the budget, and the question will be at whose expense?

Additionally, it is evident that the change in demographics will accelerate the problems that the government will have to face to ensure a continuation of Social Security. In 1935, no one anticipated the Baby Boom or Baby Bust. Just over a decade later, World War II was over, and the attendant Baby Boom began. Between 1946 and 1964 birth rates soared, and 75.9 million new Americans were born. That's more than the entire populations of most nations, including the United Kingdom and France.

Great advances in medical technology also have significantly increased the average life span of all Americans. In 1935, the Social Security program began to pay benefits at age 65; life expectancy at birth was 64 years. Today, with benefits still available at age 65, life expectancy from birth is estimated at 75 years, and there are 24 million Americans over 70. By 2030, there will be 48 million Americans over 70. This is an enormous cost to place on future generations.

In a little more than decade from now, the first Baby Boomers will turn 65 and begin collecting Social Security. At the same time the support/benefit ratio will decrease. If people are living longer, there are more retirees for each worker. If the birth falls there are less workers supporting retirees. In 1950, there were sixteen workers paying for one social security beneficiary. In 1996, there are three workers for one beneficiary, and by 2025 there will be only two for one beneficiary. This is a prescription for financial disaster unless policies are changed to account for those demographic realities.

Unfortunately, these issues are complicated. A discussion of demographics, rates of inflation, bend points, life expectancy, rates of return, or the consumer price index causes most to reach for the remote control to change channels. However, the threat is real and in an age of sound bites and three minute news stories we must be honest with the American people and provide them with the whole story and not just the sexy or scary one-liner.

Our concerns about the future of the program prompted us to start the House Public Pension Reform Caucus as a bipartisan means of educating House Members and their staffs about the intricacies of Social Security, its long-term financial outlook, and options for protecting it in the future.

As a caucus, we work solely to inform and educate. We have not endorsed any specific reform option. As you might imagine, a number of our members, many of whom are testifying here today, have their own reform proposals.

Today, the PPRC has 74 members drawn from both sides of the aisle. We stress the bipartisan nature of the caucus because we believe this debate will go nowhere without bipartisan cooperation. There is no broad consensus among our members as to the ultimate legislative solution to this problem. However, our meetings have been models of decorum and respectful debate. As we become better educated to the facts, we at least are able to form a better perspective of the range of realistic remedies.

Our members meet to listen, discuss and debate with some of the most best public pension experts in the country. To date, we have heard from two former Social Security commissioners, members of the Social Security Advisory Council, and other experts, including Estelle James from the World Bank, Michael Boskin from the Boskin Commission, Dean Baker from the Economic Policy Institute, John Goodman from the National Center for Policy Analysis, and many others. Member and staff briefings are scheduled throughout the rest of this year. The caucus looks forward to working with the Social Security Subcommittee. We would be pleased to provide you with testimony from these presenters, as well as additional information regarding times and meeting locations.

Over the next few months, eight caucus members—four Republicans and four Democrats—will begin sifting through the various reform proposals and work to formulate a legislative alternative to address the issues we have raised here today. We believe that it is our responsibility as the elected representatives of all Americans—the old, the young, and those in between—to protect the Social Security program for today's beneficiaries and preserve it for future beneficiaries. We can do nothing less.

We are aware that the subcommittee has a number of specific concerns it would like addressed. We will address each of these concerns in turn.

THE DEGREE TO WHICH SOCIAL SECURITY REFORM IS NECESSARY

The Social Security retirement program is vital to the nation and must be reformed promptly to place it on sound financial footing. Few government programs have enjoyed the same levels of success and popularity as Social Security. Since the program was enacted in 1935, millions of older Americans have enjoyed a much higher standard of living than their parents or grandparents ever knew in their old age. It is for our children and grandchildren that we need reforms to protect this sort of income security, and the caucus has already begun to examine all of the options available to us.

We want to be very clear. The discussion revolving around Social Security is not about dismantling the Social Security safety net. Instead, we want to ensure that future generations can enjoy retirement benefits which are comparable to those of today's retirees. It is precisely for this reason that as co-chairs of the Public Pension Reform Caucus we believe that Congress should act responsibly now and take the actions which will be necessary for Social Security to survive for generations to come.

Make no mistake. It is not current retirees' Social Security benefits that are at risk—the vast majority of today's beneficiaries will not be affected by most of the changes under consideration. Rather, it's the Baby Boomers, Baby Busters, Generation X'ers, and subsequent yet-to-be-named generations which stand to lose the most if the discussions are not advanced.

Individuals in these groups already are well on their way to a less secure retirement than today's beneficiaries. It is important that we preserve the Social Security program for current and future beneficiaries equally. Our focus can no longer be guided solely by the needs of current beneficiaries, but must incorporate the needs of future beneficiaries as well.

The public often accuses politicians of being short-sighted in setting policy. But, in this case, a growing number of our colleagues are beginning to take a serious look at the problem and consider real long-term solutions. We are learning from past reform efforts.

Today, and in the coming congressional debates, we hope all of the various reform options will be examined. Because so many of them advocate some level of market-based participation in investing the Social Security trust funds, we believe this option should be explored thoroughly.

ASSESSMENT OF THE ADVISORY COUNCIL RECOMMENDATIONS AND OTHER PROPOSALS

There are a number of outside organizations which have introduced Social Security reform options. The overwhelming number of groups proposing reform or supporting a reform idea include but are not limited to the Center for Economic Development, National Taxpayers Union, The Urban Institute, Progressive Policy Institute, Economic Policy Institute, National Center for Policy Analysis, and Committee to Preserve Social Security and Medicare. This signifies that the issue of Social Security reform engages all parties and ideologies. Although each chose a different method for ensuring a solvent Social Security program, one area of consensus is that reform is not only necessary but inevitable.

It is important also to note that retirement savings reform is not limited to the United States. Many countries already have begun to address the impending retirement of their ever-growing elderly population. Some Latin American countries, such as Chile and Argentina, have introduced fully-privatized programs. Great Britain has phased-in a two-tier public-private pension system for its citizens. And Poland recently took the first brave step to addressing the demographic and financial problems facing its country through a partial-privatized program.

Although, the entire world is faced with an insecure retirement for their elderly population, the main difference between the United States and these counties is our unwillingness to take action. The problems plaguing the United States Social Security program are evident. We must be bold and begin to look closely at meaningful reform. Everyday that action is not taken makes real reform more difficult.

The most exciting development in the Social Security reform discussion came with the release of the 1995 Social Security Advisory Council this past January. The 1995 Social Security Advisory Council was given the task to study and make recommendations on the long-range financing of Social Security and the adequacy and equity of the program. What is so unique about the 1995 Advisory Council compared to past councils is that the 13 member council for the first time developed three different reform options rather than just one. The common element in all three plans utilized the private market to help ensure long-term solvency of the program. The Council broke new ground and dealt with not only the long-term financing of the program but the equity between generations in its recommendations.

SPECIFIC RECOMMENDATIONS FOR CONGRESS TO CONSIDER AS IT MOVES FORWARD

There are a number of things we should keep in mind as we prepare for the coming debate. Perhaps most importantly, this is not the first time our country has been faced with such dismal numbers. We must learn from our mistakes.

(1) Social Security's sixty-two year history proves that one more tax hike is never enough. Since the first Social Security tax was levied in 1937, Congress has raised the various tax rates more than twenty times.

(2) Taxpayers were assured that tax hikes authorized by Congress in late 1977 would restore the financial soundness of the Social Security program throughout the next century. In 1983, however, Congress was faced with similar dismal projections for the Social Security Trust Funds. It is interesting to note that after the passage of the 1983 amendments, the Social Security trust fund was projected to be solvent until 2063. However, in almost every year since 1983, the estimates of accumulations in the trust fund have been revised downward. Today, as we all know, bankruptcy is predicted by 2029.

We must also look at the special needs of minority groups, women, and low-income individuals who do not enjoy the same level of benefits as the rest of the population because of shorter life expectancy, fewer years in the workforce, and other special circumstances.

Finally, depending solely on enactment of a tax increase or reducing current benefits to the elderly as a means of bringing the program into financial balance must be weighed with extreme caution.

How Soon is Congressional Action Needed?

As already mentioned, in a recent hearing before the Ways and Means Social Security Subcomittee, the authors of the three Social Security Advisory Council options concurred on one point: reform is needed sooner rather than later. In their January report, they urged that "early action should be taken to reform Social Security." Likewise, the recommendation of the Social Security Trustees in their 1997 annual report, issued April 24, states that "in view of the lack of close actuarial balance in the OASDI program over the next 75 years, we again urge that the long-range deficits of both the OASI and DI Trust Funds be addressed in a timely way."

Other federal agencies such as the nonpartisan Congressional Research Service point to the year 2012 as the date when Social Security outlays will begin to exceed receipts. By 2029 or 2030, the Social Security system will be in default. The General Accounting Office feels this issue is important enough to convene a two day conference on the subject next week. It would seem that these agencies also point to taking action soon.

As you know, in a June 19 Wall Street Journal interview, President Clinton indicated his desire to take up Social Security reform later this year.

We still have time to debate this issue rationally, to make certain that all opinions are heard, and to ensure that all reform options are explored. We have time to act responsibly, rather than rashly.

Our personal belief is that we need to continue the education process—inside AND outside the beltway—this year and begin the reform debate in earnest in 1998.

Conclusion

Thank you for convening this hearing. The House Public Pension Reform Caucus looks forward to working with the Subcommittee in any way possible to advance this debate.

To that end, we will continue our educational briefings for Members and staff. Our legislative working group will also work to make positive contributions to the debate.

Again, we appreciate the opportunity to share our views with you. We look forward to working with you and your staff.

Mr. Bunning. Thanks, Jim.

Pete, go right ahead.

STATEMENT OF HON. PETER A. DEFAZIO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. DeFazio. Thank you, Mr. Chairman.

I'm not sure if I'm the only one at this point, but one of the very few, who is a trained gerontologist and who has worked with seniors and have a long background in this area. I appreciate the opportunity to testify.

A lot of the problem we're focusing on is a 23-percent deficit two generations in the future. That is, current projections, most probable, show us that we'll be able to pay 77 percent of obligations of the existing Social Security system two generations from now. That's a problem and it needs to be dealt with. It is not an immediate crisis, anywhere near as much of a crisis, as we have with Medicare.

But I think there is a more immediate funding problem, which is how are we going to pay the benefits even to that point in time, which is the fact that Social Security has no assets except for Federal debt. That was planned and we understand it. It's considered to be a very safe investment.

But for more than a decade, since I first came to Congress and met with the Social Security Commissioner 10 years ago, I said how is the Federal Government going to raise the money to pay that debt? That is an interesting problem that we need to deal with, and one of the things that led me to be a strong supporter of the Balanced Budget amendment, along with Charlie and others. I think that's something we can't ignore.

In fact, the so-called balanced budget we reach in 2002, if you look at the budget report, it actually shows a $106 billion deficit because we are still assuming, for the purposes of the congressionally balanced budget, the fact that Social Security will run a $106 billion surplus that year, going into a titular trust fund to pay for future benefits, to claim our balance. That is a problem.

That has led me to believe that the Ball plan should have been implemented some time ago, hopefully could still be implemented in time to make a difference, to begin to divert part of the trust funds into investments other than Federal debt. Real assets, things that have an income stream, things that could be cashed in or used to pay benefits, as opposed to just the full faith and credit of the Federal Government, and the repayment of that debt, depending on where we stand in our deficit terms.

I have problems with other proposals. Schieber-Weaver would lead us to a $2 trillion addition to the debt. I think that's very problematic. Gramlich scales back benefits and would impose a higher payroll tax. I think that's very problematic for working people, particularly at the low end of the scale. So I think a solution could partially be based in looking at proposals of the Ball plan, and I would also suggest that the Subcommittee look at the cap on earnings on which you pay Social Security.

If you were to remove that cap, still have everybody eligible for benefits, but limit the top benefits similar to what they are now, you would find that that would be $67 billion a year in additional revenues into the program. It's a highly progressive tax. Obviously, people at the top would scream a little bit, but it's something that, linked with some of the Ball proposals, or even looking at changes in the bend points out for future generations, could put the plan back in balance two generations from now, which is the major focus of this hearing today.

I thank the gentleman for the opportunity to testify and look forward to any questions the panel might have.

Mr. BUNNING. Thank you all for your testimony. We appreciate your being here.

The next panel that we are to hear from is Congressman Jerrold Nadler, Congressman Bernie Sanders, Congressman Vern Ehlers, and Congresswoman Eddie Bernice Johnson. Those are scheduled to be here.

So, Bernie, you are going to——

Mr. SANDERS. So I'll speak for everybody, huh?

Mr. BUNNING [continuing]. You are going to speak, it looks like, for the five.

Mr. SANDERS. OK. I'm sure they'll all be delighted by that. Just put it in the record they have given me the authority to speak for them, and they're fully supportive of everything I'm going to say. [Laughter.]

Mr. BUNNING. No, I don't think I can do that. Go right ahead, Bernie.

STATEMENT OF HON. BERNARD SANDERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VERMONT

Mr. SANDERS. Thank you for inviting me to say a few words on what is obviously an issue of enormous impact.

First of all, as a prelude to what I want to say, I happen to believe, perhaps unlike some people in the Congress, that Americans are entitled to certain rights, including economic rights. I think it will be a national disgrace when the day comes where some elderly people may not get all of the health care that they need or all of the retirement benefits that they need.

If this country can afford to create an economic system in which the richest 1 percent of the population owns more wealth than the bottom 90 percent, then we damned well can make sure that every senior citizen in this country lives out their last years with dignity and that we retain a strong Social Security system.

So that's my prelude. We are not a poor Nation. We are a wealthy Nation. The bottom line is that every senior citizen has the right to live our their last years with dignity and security.

Number two, some of us, when we pick up the newspaper or watch television, we hear about the crisis facing Social Security. Every day we hear about the crisis. Well, as you know, Mr. Chairman, there are already a lot of crises facing this country and this Congress. It just so happens, in my view at least, that there is no crisis in Social Security, and that it is a myth being created by certain corporate "think tanks" and certain political people, and maybe the media as well.

This year, as you know, the Social Security Trust Fund is running a surplus of $73 billion. My hope would be that we should have similar type crises in other agencies of government. We would all be in pretty good shape. The trust fund currently contains over $500 billion and, if we do nothing—and many people think the best thing that Congress can do is nothing—but if we do nothing, we will be able to pay out all of our benefits to every eligible American for the next 32 years, until the year 2029, and that's using very conservative economic projections. Obviously, no one can predict what happens in the next 30 years, but there are economists who tell us that, in fact, we will be able to continue to pay out benefits even longer than that.

Now, I don't understand how you can have a crisis when you have a program that's working well for the next 32 years. No business that I know can do that and then say they have a crisis.

As you know, in 1983 we, in fact, did have a crisis. In that year, the Social Security Trust Fund would have been empty in 2 months, 2 months, had the government not acted. But today we have ample time. There is no crisis and we have ample time to adjust the system, and that's something we should be doing in a thoughtful, nonpanicky way.

I would suggest to you, Mr. Chairman, that one of the reasons that we hear about the "crisis" has to do with the fact that there are some people on Wall Street who would like to ultimately privatize the Social Security system. The Wall Street Journal reported that Social Security privatization—"could be the biggest bonanza in the history of the mutual fund industry * * * hundreds of billions of dollars could shower into fund companies and brokerage firms."

So the more we hear about the crisis and the more that young people especially believe that Social Security might not be there for them, I suspect the more people might think that we should do away with the system and privatize it.

In Washington, financial industry lobbyists are pressing hard for such a bonanza. The Wall Street Journal also said that corporate interests are bankrolling a public relations campaign—"to put an intellectual face on the issue, stoke a national debate and, they hope, eventually make the sale." In other words, millions of dollars are going into corporate think tanks and big money interests are wanting to convince the American people that the system in crisis is not in crisis, so that eventually it will be privatized. Needless to say, I do not look favorably on that whole approach.

At the same time, there are some people in Congress who are trying to cut back the CPI, which you know determines the Social Security cost-of-living adjustments. To my mind, that is an outrageous attempt to balance the budget on the backs of the elderly, rather than dealing with issues like corporate welfare. We've got $125 billion a year in corporate welfare. We have a tax system which, in the last 20 years, has given huge tax breaks to the wealthy and the large corporations. We are spending, in my view, far too much on the military. Some of us tried to lower the intelligence budget yesterday, without success. I think we should look in that direction, rather than telling elderly people in Vermont, or anyplace else in this country, that we have to cut their Social Security benefits when they're trying to survive on $8,000–$9,000 a year.

While there is no crisis today, we should, in fact, begin working now to make certain that we avoid a problem in 32 years. Let me suggest a few reasonable steps that Congress can take.

Currently, Social Security is funded in an extremely unfair manner. Pete DeFazio mentioned that. While most Vermonters and Americans contribute to Social Security based on their entire income, the wealthy pay Social Security taxes on only a fraction of their income, because any individual's salary above $65,400 a year is exempt from Social Security. In other words, a billionaire pays the same in Social Security taxes as an individual making $64,500. Frankly, I think that's wrong. If you want to save Social Security, do away with that ceiling.

Let me say that we do face basically two crises, and I will conclude by saying this, making the same point that Peter made a moment ago, that if you do away with the ceiling, we could raise another $70 billion next year and keep the trust fund solvent, conservatively speaking, for another 56 years, until the year 2053.

Bottom line, there is no crisis; bottom line, Wall Street is pouring millions of dollars to try to convince the American people that there is a crisis; bottom line, with simple, decent changes, Social Security can and should remain strong in perpetuity.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. Bernard Sanders, a Representative in Congress from the State of Vermont

Mr. Chairman, thank you for holding these hearings and for inviting me to testify here today. I believe our Social Security system is one of the most important, most successful pension programs in history. For the past sixty years, Social Security has always paid its benefits in full, on time. This program currently serves 43 million people, including 98,000 Vermonters, and we must very carefully examine any proposed changes for the future.

Some politicians and Wall Street speculators want us to believe that there is a "crisis" facing Social Security so that they will have an excuse to lower benefits. The truth is that the Social Security system today is extremely strong, and will remain financially solvent long into the future with only minor changes.

There is absolutely no question that today's retirees will receive their benefits in full, on time, as long as politicians do not cut benefits.

This year, the program is running a surplus of $73 billion. The Trust Fund currently contains over $500 billion and, if we do nothing, will be able to pay out all benefits for the next 32 years—until 2029, using very conservative economic projections. That is no "crisis."

In 1983, we had a real crisis. In that year, the Social Security Trust Fund would have been empty in two months had the government not acted. Today, we have ample time to adjust the system. The whole notion of a "crisis" is part of a coordinated campaign by Wall Street speculators and their friends in Washington to destroy faith in Social Security for the sake of personal profit.

Last year, the *Wall Street Journal* reported that Social Security privatization "could be the biggest bonanza in the history of the mutual fund industry .... hundreds of billions of dollars could shower into fund companies and brokerage firms."

In Washington, financial industry lobbyists are pressing hard for such a "bonanza." The *Wall Street Journal* also said that corporate interests are bankrolling a public relations campaign to, quote, "put an intellectual face on the issue, stoke a national debate and, they hope, eventually make the sale." Companies with a great deal to gain are donating millions of dollars to federal candidates and right-wing think tanks who will work to destroy confidence in the system, especially among the young.

At the same time, some politicians are trying to cut the Consumer Price Index, or CPI, which determines Social Security Cost of Living Adjustments. This is an outrageous attempt to balance the budget on the backs of the elderly, rather than cutting corporate welfare and reducing unnecessary military spending.

Cutting the CPI would be a disaster for thousands of senior citizens in Vermont and around this country. Half of senior citizens have incomes of less than $15,000 a year, and last year 12% of Vermont seniors lived below the poverty level of $7,740. And with the 1.1 percentage point cut in the CPI advocated by some politicians, the average Vermont widow—who today receives about $8,000 in Social Security—would take a $600 a year cut by 2003.

For the many Vermont seniors who must struggle to pay for the heat, food, prescription medicine and housing they need, that would truly be a "crisis." That is why the CPI should be determined as it is today: by the expert economists at the Bureau of Labor Statistics, not through the back door by politicians.

While there is no crisis today, we should begin working now to make certain we avoid a problem in 32 years. Let me suggest some fair, reasonable steps that Congress can take.

Currently, Social Security is funded in an extremely unfair manner. While most Vermonters must contribute to Social Security based on their entire income, the wealthy pay Social Security taxes on only a fraction of their yearly income, because any individual's salary above $65,400 a year is exempt from Social Security. In other words, a billionaire pays the same in Social Security taxes as an individual making $64,500 a year.

If we are serious about protecting Social Security, not raising taxes on the middle class, and not cutting the benefits desperately needed by many senior citizens in Vermont and throughout this country, we must adjust this artificial ceiling on Social Security taxes and make the Social Security tax more progressive.

According to the actuaries at the Social Security Administration, changing this unfair and regressive policy, depending on exactly how it is done, would raise up to $70 billion next year and keep the Trust Fund solvent, conservatively speaking, for another 56 years—until 2053.

Let me say that we do face two crises, although neither is in the Social Security Trust Fund. The first crisis is in the moral fiber of those who would destroy the most successful universal pension program in history; the second would be a financial crisis for the millions of elderly Americans who will suffer if Wall Street gets its way.

Congress must ensure Social Security remains solvent and safe for generations to come. We must not let anyone dismantle, cut or gamble with our seniors' Social Security under the guise of "protecting" it.

Mr. BUNNING. Thank you.

I want to remind our good friends from the Congress that we are looking for suggestions. We are looking for ideas on changing the current system, making it more viable, and making sure that the 75-year window that we are looking at is funded. That is the purpose for these hearings. I need to remind you of that.

Sometimes we get off the track. But that is the purpose of the hearings, to make sure for the next 75 years, the program is in 1983, we were going to make sure that that funded properly. I would hope that you would address your remarks to that.

Vern, you're up.

STATEMENT OF HON. VERNON J. EHLERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. EHLERS. Thank you, Mr. Chairman and Members. I will give you a few impressions first and then come up with a few concrete suggestions.

I first of all commend you for having this hearing. I think it's an extremely important issue. I do disagree with my colleague who just testified. I don't know if I would use the word "crisis," but I would say it's at least an impending crisis. It's something that we have to address.

Just imagine if we, as elected officials, would decide to tell the American public that we have just introduced legislation to preserve Social Security. Everyone would be happy. But when we reveal the details, that we're doing this by raising payroll taxes by 17 percent, or that we're advocating cutting Social Security benefits by 14 percent—which is what it would take to achieve a balance—clearly, the public would be less than excited about our statements.

Yet, those are the facts. Those are the statistics, and that's what is contained in the Social Security Report which is released annually. It is simply absorbed and people toss it in the corner without recognizing the implications of it.

It is very important for us as Americans to recognize that we have an actuarial deficit in the Social Security Program of 2.23 percent of payroll. That's a very serious problem. And yet, the public, I'm afraid, is not aware of that. I think that can be one important benefit of these hearings, to educate the public about the dangers that they're facing in the future.

The true significance of this deficit is it's use as a measure of time and urgency. In 1983, I was not in the Congress, but both the Congress and President Reagan formed a bipartisan commission, the Greenspan Commission, that agreed on historic legislation to save Social Security. They seriously thought they had, because the actuarial unfunded liability was zero. And yet we find that, today, we're at 2.23 percent actuarial deficit, 22 percent worse than we had in 1983. Obviously, we did not fix the problem.

I think this is a call to action, and particularly if we look at the cash flow deficits. If we don't do anything, in the year 2012 we will have a $7 billion deficit in that particular year, and 5 years later, in 2017, we will have a $50 billion deficit. As you can imagine, the reserves will soon run out and we would have to pay for it by borrowing more money. If we don't do anything, don't change anything, by 2030 our national debt will grow from $5 trillion to $35 trillion. That's simply inconceivable to me. We cannot do that.

Behind these dry statistics are very real people, people who are going to depend on Social Security to pay the rent, to buy their food, and others who benefit from Social Security, such as the disabled.

I think it's very clear that we have to reform Social Security, and that's why I commend you and the Members of this Subcommittee.

A first step toward reform is education. The public has to understand the nature of the Social Security system. Sometimes I tell my constituents, when I'm giving speeches and they ask questions this, that it's important to recognize that Social Security payments they're getting consists of two parts: A part which you might consider a pension, a return of the money they have invested, and the second part is welfare. It is the Nation's largest welfare system. That is very disturbing for them to hear, but it is not too hard to prove. We have to be aware of that and distinguish between those two aspects of it.

Last, while I'm commending people, in addition to you, I want to commend Senators Simpson and Kerrey, who introduced some well thought out legislation last Congress in the Senate to deal with this, and also my friend from Michigan, Nick Smith, who has worked on this extensively and has introduced a proposal which I think deserves consideration as well.

Now, to get to the specific suggestions that I have—and some of these, since I'm relatively new here, as you know, these may sound a little off the wall.

Frankly, I think it was a mistake to include Social Security in the budget. I think Social Security should be off budget so that it's precisely clear to the public and to us what we have in reserves and what we have borrowed, what the cash reserves are, and what the long-term future is. Having it buried in the rest of the budget, I think, is misleading. It makes our deficit look smaller than it really is. I think we should clarify that.

I think we are going to have to look at some type of means testing to deal with the problem. Some of the suggestions of the Concord Coalition I believe deserve consideration. One proposal, for example, is that those who have over $100,000 a year of retirement income do not get the welfare portion, as I called it, of the Social Security payment, but that they do get back what they put in, plus interest. In other words, the pension part of the Social Security. That will, of course, be controversial.

My colleague who spoke before me indicated that we should remove the lid on the contribution, the payroll taxation. If we do that, then, of course, we should means test benefits, because then we're hitting people doubly hard. We're making them pay more to start with and get less at the end. So you can't do both of those. You have to do one or the other.

These are some thoughts, Mr. Chairman. I notice the red light is on. I could give you more, but I have submitted written testimony for the record and I hope you find these comments useful.

[The prepared statement follows:]

Statement of Hon. Vernon J. Ehlers, a Representative in Congress from the State of Michigan

Thank you Mr. Chairman and Members of the Subcommittee for holding such an important and timely hearing on Social Security's future. I appreciate you extending your invitation to all Members of the House so you can hear a wide diversity of views. I am also pleased your Committee is continuing to shed light on a subject that, to many, should be kept in the dark.

I mentioned that this is an important and timely hearing because of two reasons. First, it is important because no other government program has touched more Americans' lives than Social Security. Since its inception in 1935, Social Security has grown and has been drastically changed by Congress. Growth in payroll taxes to finance the program and growth in the amount and type of benefits has marked its adolescence and maturity. Currently, 145 million workers pay into the system, and 44 million retirees are drawing benefits out of the system. Workers now pay 12.4 percent of their income for retirement and disability benefits. This is a far cry from the 1 percent payroll tax in 1940. Second, it is timely because recent Social Security Administration projections show that the program may face forced retirement from its impending bankruptcy. With so many Americans depending on Social Security, I welcome your leadership and these hearings.

MY VIEW

Imagine if we, as elected officials, had to go out that door and tell the American public we have just introduced legislation to preserve Social Security for future generations by raising payroll taxes by 17 percent. Or, even more unbelievable, imagine if we introduced a bill to cut Social Security benefits for current and future retirees by 14 percent. I do not think any of my colleagues would be running for the door to tell the press corps that news. However, the Social Security Administration releases the Social Security Trustee's Report every year telling Congress those very statistics.

The report tells us that the "actuarial deficit" of the Social Security program is 2.23 percent of payroll under intermediate assumptions. To the American public this might as well be written in ancient Greek because not many people understand its implications. Nevertheless, I can tell you it says we are in trouble and that America's favorite government program is in jeopardy.

The true significance of this deficit is its use as a measure of time and urgency. In 1983, Congress and President Reagan formed the bipartisan Greenspan Commission that agreed on historic legislation to "save Social Security." Then, the Social Security Administration actuaries warned that the system had an unfunded liability equal to 1.82% of taxable payroll. The 1983 law was supposed to solve this problem through the middle of the next century. However, the actuaries now find that the unfunded liability is 2.23% of taxable payroll—22% worse than in 1983!

If that is not a call to action, then maybe we ought to look at the actual cash deficits Social Security will begin accruing in 2012. Consider the following figures that are in today's dollars: In the first year, $7 billion; by the fifth year, $50 billion. When we combine these deficits with spending on other entitlement programs, namely Medicare, the national debt is projected to grow from $5 trillion today to $35 trillion in 2030. Incidently, the Social Security trust fund is projected to run out in 2030. Behind these dry statistics are very real people—retirees that live on Social Security from check to check to buy their food and make their rent payments, disabled children and adults who cannot reenter the workforce, workers who live paycheck to paycheck, with little savings, that cannot afford another payroll tax increase. We have to ask ourselves as leaders of America: Can we leave future generations this legacy?

THE SOCIAL SECURITY TRUST FUND

Of course, we hear from constituents that there is a vast trust fund waiting to pay off our obligations to future retirees. However, the hard truth about the Social Security trust fund is that the government has lent itself all of the money. I am not a banker, but I know that being both the underwriter and payee of a loan is not a wise financial situation. The trust fund does hold government bonds, they do earn interest, and they are backed by the full faith and credit of the government. Nevertheless, when Social Security surpluses turn to deficits, Congress will be in a budget crunch. So we cannot turn a blind eye to this problem now. Even today some Members of this body are skeptical about our ability to repay all of Social Security's nonnegotiable bonds.

DEMOGRAPHICS DRIVE THE PROBLEM

What is driving Social Security to bankruptcy? First, the system is not designed like a normal fully-funded pension system. It is and always has been a pay-as-you-go system, where current workers support current retirees. If the pool of workers expands and the pool of retirees being supported by the workers stays static, this financing works. Unfortunately, this design is Social Security's fatal flaw. People are living much longer today than when the system was first created. Secondly, there will be more retirees in the future from the baby boomer generation.

At the peak of the baby boomers' retirement there will be approximately 64 million Social Security beneficiaries, today there are only 37 million. Because Social Security is a pay-as-you-go system our workforce must expand, or Congress will have to increase workers' taxes to support these 64 million beneficiaries. Unfortunately, the Social Security Administration's projections show that our workforce will only increase by 14 percent from 143 million workers today, to 163 million workers in 2025. This is not enough growth to keep up with the 71 percent increase in beneficiaries.

CONCLUSION

Clearly, reforming Social Security is incumbent upon us. However, the first step toward reform is education. This is the most important role we, as elected officials, can provide to the public. Mr. Chairman, your efforts serve this goal well. I would also like to commend my colleagues Mr. Kolbe and Mr. Stenholm for their work with the Public Pension Reform Caucus. Their goal of educating members and staff on this issue is a critical piece of reform. Besides these efforts, many private organizations are managing large education campaigns. While I do not have time to name all of them, I would like to thank those dedicated to making America aware of this problem.

Lastly, I also commend my colleagues who have introduced comprehensive legislation addressing Social Security's long-term problems. Last year, Senators Simpson and Kerrey introduced well-thought-out legislation in the Senate, and my friend from Michigan, Mr. Smith, introduced a comprehensive proposal in the House. While I may not agree with all of the policy implications in these proposals, their efforts can serve as an important tool for reform.

Thank you again, Mr. Chairman and Members of the Committee, for letting me express my views on Social Security. I look forward to working with you and Members of the Committee on efforts to reform the system.

Mr. BUNNING. Thank you very much, Vern.

STATEMENT OF HON. JERROLD NADLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. NADLER. Thank you, Mr. Chairman. Thank you for the opportunity to testify before the Subcommittee.

I would like to stress one major point at the outset. I do not believe there is a crisis in Social Security. A crisis suggests imminent demise that requires drastic action. That's not the case. There is a long-term financing problem of moderate dimension at most. Yes, we must make some changes, but we do not by any stretch need to dismantle the system to ensure its long-term solvency.

Two arguments are used to assert that there is a major financing crisis facing Social Security and that, consequently, we must reduce benefits and, according to some, privatize the system.

First, we are told the problem is demographics because people are living longer and the baby boomers will retire in a couple of decades. We are told that whereas now there are 3.3 workers for every person on Social Security, in 30 years there will be only 2 workers for every person on Social Security and this will present a much higher and insupportable burden for each worker.

But this is a very flawed argument. The ratio of workers to seniors is not the ratio that determines the relative burden on each worker. The relevant ratio is that of working age people to all dependents, people who cannot work and must be supported by the current generation of workers, namely, seniors and children.

Today's workers must pay not only for Social Security, but also for schools, day care, baby food, tricycles and "boom boxes." When we look at this ratio, we see a very different picture.

In 1965, there were 95 children and seniors for every 100 working age Americans, so every 100 workers had to support 195 people, themselves and 95 children and seniors. In 2030, every 100 working age Americans will have to support 179 people, themselves and 79 children and seniors. The relative burden will have been reduced substantially, not increased. And the per capita income with which to support that burden is much higher today than it was in 1965, and it will be much higher in 2030 than it is today.

Today, the worker to dependent ratio is 1 to 0.71. In 2030, it's expected to be 1 to 0.79, a 4½-percent increase in the per capita burden. But even a conservative 1 percent annual productivity increase, compounded over the next 33 years, will produce a roughly 40-percent increase in per capita income with which to support the 4½ percent increased burden. In short, the burden of Social Security will be much lighter than it is now, or has been in decades.

The second argument, we are told that the Social Security Trust Fund will be bankrupt by 2029. This projection of the Social Security Trustees is based on an average economic growth rate assumption, from now until 2029, of 1.75 percent. The 75-year projection is based on an average economic growth of 1.4 percent. In the last 25 years, economic growth has averaged not 1.75 or 1.4, but 2.5 percent, and somewhat higher in the last several years.

Even if we project a very conservative growth rate of 2.2 percent annually, the trust fund shortfall will amount to 1.5 percent of taxable payroll, not the 2.2-percent gap projected by the Trustees. Even assuming the extremely low growth rate projected by the Trustees, the shortfall is only a little more than 2 percent of taxable payroll, not an enormous amount. We can deal with it without destroying the system.

I propose that we look to some intermediate steps now, to narrow the gap in taxable payroll and wait to take further action until we have a better idea of what the future of our economy holds. Obviously, the best thing we could do is follow economic policies to have a reasonably high economic growth rate. But let's mention a few possible measures that we can take in the immediate future.

First are two measures proposed by the Ball Commission. One, invest a portion of the trust fund in the private markets—not as much as they propose, but a portion—and two, bring State and local workers into the system. A third possibility is to raise or lift entirely the cap on taxable earnings, as Congressman Sanders mentioned. Fourth, the former president of the American Association of Economics, Northwestern University Professor Robert

Eisner, has proposed that the portion of income taxes paid on income paid into the Federal Insurance Contributions Act, FICA, be shifted from the general fund to the trust fund. This, by itself, would solve much of the problem and would not increase the deficit by a nickel.

Privatization is certainly not the solution to the problem we are facing. Privatizers are faced with a major problem: How do you shift a huge income stream away from the trust fund and still pay current benefits? Social Security actuaries peg transition costs to an individual accounts system at $7 trillion. So what do they propose to do? Raise Social Security taxes by 1.6 percent and then privatize. With any kind of reasonable economic growth rate, a 1.6-percent tax increase would solve the problem by itself, without privatization or any other measure.

And the privatizers' statistics make no sense at all. They predict the economy will grow at 1.75 percent annually, but that stock prices will increase by 7 percent a year indefinitely. Such a discrepancy cannot be sustained. The price-to-earnings ratio for stocks would have to climb to astronomical levels and eventually the bubble must burst.

Aside from the shaky economics, privatization would remove the security from Social Security. It would shift the risk from the government to the individual. If your investments don't do well, you starve in your old age. Social Security was designed as it is for a reason: To share the risk as a nation, so that everyone will have at least a minimally adequate income for their retirement. Privatization is a tax increase in extremist clothing and sounds a death knell for the security that Social Security provides to our seniors.

We must handle the issue prudently. Acknowledge we have a problem, not a crisis, take some steps now, and then wait—have policies for reasonable economic growth rates—and see what, if anything, down the road we must do.

We must do all we can to boost economic growth so that we don't ever have to cut benefits or raise taxes to keep the trust fund solvent. A reasoned, rational response is required, nothing rash like privatization. We must protect and preserve Social Security for our parents, for ourselves, and for our children, reasonably and rationally.

Thank you.

[The prepared statement follows:]

Statement of Hon. Jerrold Nadler, a Representative in Congress from the State of New York

Mr. Chairman, thank you very much for the opportunity to testify before the subcommittee. I think it is a great service to the country that the subcommittee is actively exploring the future of Social Security.

Let me begin by saying I do not believe there is a crisis in Social Security. A crisis requires drastic action. That is fortunately not the case for Social Security. Yes, we must make some changes, but we do not, by any stretch, need to dismantle the system to ensure its long-term solvency.

Social Security was founded on a basic premise: the guarantee of a basic, minimally adequate retirement pension for everyone, regardless of whether or not they have private pensions or savings. And it has worked. Before Social Security, old age often was a guarantee of poverty and hunger. By and large, thanks in great part to Social Security, that is no longer true.

Today, that warranty is under assault. And the strategy for destroying this successful program has been to discredit it and to sow fear through misinformation.

We are told that the Social Security trust fund will be bankrupt by 2029. Now, these projections are based on average economic growth rates of 1.75% from now until 2029. Economists have relatively sound arguments as to why this may be the case, but what if the economy grows at 2.2% instead of 1.75%? This, by the way, would be considerably less than the 2.5% average rate of growth we've had for the last 20 years. If we get 2.2% economic growth, we will have a deficit in Social Security's trust fund of just over 1.5% of taxable payroll, not the 2.2% gap projected by the Social Security Trustees. No one can say for sure this will happen, but it is quite possible. We just can't tell.

To predict the economic health of the nation decades in the future is virtually an impossible undertaking. We have enough trouble predicting economic growth rates even one year in the future. Just to give you an example, take fiscal year 1996, which ended September 30, 1996. At the beginning of the fiscalyear, the Congressional Budget Office predicted we would have a deficit of almost $160 billion for the year. The real number was $107 billion. They were off by over one-third! And the Social Security Trustees are trying to predict how things will be 75 years from now.

Despite these facts, some still argue we must reduce benefits, and privatize Social Security to prevent the presumed bankruptcy of the system. They point to the declining ratio of workers—who pay for benefits—to seniors—who receive them. They argue that today, there are approximately 3.3 workers for every senior citizen, whereas by 2030, there will only be 2 workers for every senior citizen. In other words, they predict there will be relatively fewer people to share the burden of providing for the elderly.

But, this is a flawed argument. The ratio of workers to seniors is not the ratio that determines the relative burden on each worker. The ratio to look at is that of working-age people to all people who cannot work or are retired and must be supported by the current generation of workers—i.e. seniors, the severely disabled and children. Today's workers must pay not only for Social Security, but also for schools, day care, baby food, even tricycles.

But, in 1965, there were 95 children and seniors for every 100 working-age Americans. So every 100 workers had to support 195 people—themselves, and 95 children and seniors. In 2030, thanks mostly to declining birthrates, there will be only 79 children and seniors for every 100 working-age Americans. Therefore, every 100 workers will have to support 179 people—themselves and 79 children and seniors. The relative burden will have been *reduced* substantially, not increased. And the per capita income with which to support that burden is much higher today than it was in 1965.

In addition, assuming a modest 1% annual productivity growth, per capita economic output will be 35–40% higher in 2030 than it is now, giving us even more income to pay for retirement and other concerns. In short, the "burden" of Social Security will be much lighter than it is now or has been in decades. We can provide for the elderly.

Even considering the low economic growth figures assumed by the Trustees, the problem we are talking about is a little more than 2% of taxable payroll. That is not an enormous amount. We can deal with that gap without destroying the system. I propose that we look to take intermediate steps to narrow the gap in taxable payroll and wait to take further action until we have a better idea of what the future of our economy holds. I know that, politically, few members want to go to bat on solutions without appearing to deal with the entire problem posed by the Trustees. But the reality is it is prudent not to overreach. No one wants to be known as a person who cut Social Security. Maybe someday we will have to do it, but why do it now, and take all the political heat, when it may not be necessary? And policywise, it makes sense to take logical steps now and wait to see what, if anything, further we need to do.

Let me just mention a few possibilities being discussed. One is having the government invest a portion of the trust fund in alternate investments. This would allow us to increase returns while keeping the risk with taxpayers as a whole, not hoisting it on the individual. Another possibility is raising, or lifting entirely, the cap on taxable earnings. A third option might be to bring state and local workers into the system. Or, we perhaps could look at a proposal put forth by Professor Bob Eisner of Northwestern. He proposes shifting the taxes people pay on the portion of their income which goes to Social Security from the general fund to the Trust Fund. After all, the revenues are Social Security related. I must study the ramifications of these and other possible changes before I could support them, but these are the types of things we should be looking at now, not talking about slashing benefits or privatizing Social Security and dismantling the entire system.

Privatization is certainly not the solution to the problem we are facing. I could not be more strongly opposed to this ideologically-driven quest. First, privatization of Social Security would do nothing to extend the life of the Social Security Trust Fund. Nothing. Privatizers are faced with a problem: how do you shift mass levels of assets out of the trust fund and still pay current benefits? The costs would be enormous. In fact, the Social Security actuaries peg transition costs to an individual accounts system at upwards of $7 trillion. Let me say that again: the cost to shift from the current system to a private accounts system would be $7 trillion. And you thought we had a revenue problem now? So what's the solution of the privatizers? Raise taxes! We are faced with a gap of slightly more than 2% of taxable payroll. The privatizers want to raise taxes 1.6%—and then privatize. Why not then just raise taxes all the way and solve the problem entirely?

Second, privatization would force individuals, on their own, to invest funds for their retirement with no certainty as to the outcome. Many Americans already invest for their retirement independently of Social Security, but Social Security remains an often necessary guarantee against poverty. The vagaries of the stock market, not to mention the fact that many Americans lack working knowledge of how the market functions, would prevent any guarantee of a reasonable return.

Privatization shifts the responsibility of risk from the nation as a whole to each individual worker. It becomes every person for his or herself. Should you make poor choices, too bad. Poverty awaits. This is especially possible for those already on the edge of poverty. Since contributions to individual retirement accounts would be made based on a percent of earnings, those with lower incomes would contribute less each month, leaving them less to invest. This would severely restrict their ability to diversify their account, putting them even more at risk for a catastrophic loss.

This is not acceptable. We must ensure that Social Security continues to guarantee adequate payments in our later years. Investment in the stock market is not a magic panacea. The alarmists argue the average rate of return for stocks will be 7% for the next 75 years. That simply does not follow from their projections for how well our economy will do as a whole. They predict the economy will grow at only half the rate it has in the last 100 years, but the stock market will grow at the same pace it has been. This makes no sense.

There are only two ways this could happen. One, the price to earnings ratio for stocks must climb to astronomical levels: 34 to 1 in 2015, and 485 to 1 by 2070. Today, the price to earnings ratio is just over 20 to 1, near record highs. Perhaps price to earnings ratios can rise continually and rapidly—but only for a period of time. It has happened before: in the 1920's and the 1980's. And then the bubble will burst. Does the name Black Tuesday ring a bell?

The only other way stocks can continue to produce such high returns given the projected decline in the rate of economic growth is if corporate profits rise enough to support returns of 7%. But following the Trustees model, the increases in profits have to come at the expense of wages. In order to generate 7% returns, wages would have to fall to 63% of their current level by 2035. By 2055, real wages would have to fall to just 18% of the levels projected in the Trustees' Report, and by 2070, they would actually turn negative. Imagine the impact this would have on Social Security revenues, not to mention the disaster this would be for our nation as a whole.

But, even assuming stocks by some miracle were to produce a 7% return after inflation, an average implies results both above *and below* the mean. That means millions of people will do much worse than 7%. In fact, they may even lose money. What then? Are we going to tell those people tough luck? Do we try and differentiate between those who were unwise and those who were merely unlucky? Under the Personal Savings Account plan, those people would be left with a flat, SSI-level benefit of $410 a month. This is well below the current average monthly benefit of $738 for single retirees. Do we really want to tell our nation that this is what they will have to live on?

Social Security was devised as it is for a reason: to share the risk as a *nation* so that everyone would have at least a minimally adequate income for their retirement. Privatization is a tax increase in extremist clothing and sounds a death knell for the security that Social Security provides to our seniors.

As you know, this is a situation ripe for intergenerational conflict and for undermining support among the young for Social Security and other entitlement programs. We must handle the issue carefully, but we should not be scared to take prudent policy actions: acknowledge we have problems, but not a crisis, take some steps now and then wait and see what, if anything, further we must do. Otherwise, we may be unnecessarily depriving countless people of their hard-earned retirement income.

Meanwhile, we should do all we can to boost economic growth so that we don't ever have to cut benefits or raise taxes to keep the Trust Funds solvent. There are a number of factors, from interest rates to investment in research and development to labor force participation rates, which contribute to economic growth rates—and which will help the revenues for Social Security—which can be affected by public policy. We must look at how we in government can assist these factors and help the economy grow faster.

We simply do not need massive changes to a successful program. We must question prevailing wisdom and not allow those who would dismantle Social Security to control the debate. A reasoned, rational response is required—nothing rash like privatization. We must protect and preserve Social Security for our parents, for ourselves, and for our children. Thank you.

Mr. BUNNING. Thank you.
Mrs. Johnson.

STATEMENT OF HON. EDDIE BERNICE JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mrs. JOHNSON. Thank you, Mr. Chairman. I appreciate the opportunity to testify before you, and appreciate that you are calling these hearings.

Social Security is arguably the most successful antipoverty program of the U.S. Federal Government. In fact, 26 percent of elderly recipients rely on Social Security for 90 percent of their total income. Without Social Security, the poverty rate for those 65 or older would increase from 13 percent to nearly 50 percent, which translates to about 12 million people.

Today, Social Security actually is in fairly good financial shape. The trust fund has over half a trillion dollars reserved to pay future benefits. This year alone, Social Security will take in over $70 billion more than it spends.

What I do appreciate is the fact that we're planning ahead. The problem posed by the retirement of the baby boom generation has been clear for decades. However, the trust funds have been building a reserve that will help finance this generation's benefits.

As the Trustees' reported in April, Social Security can pay full benefits in a timely manner until 2029, without a single change in current law. In 2029, annual tax revenues will cover about 77 percent of the benefits promised under current law. The remaining projected shortfall in the trust fund can be fixed, I believe, with manageable changes to the system.

In 1983, the Social Security Trust Fund faced insolvency in 2 months' time. This crisis was averted without radical change. Today, I think we can do it again without radical change. Nonetheless, legislators must discuss real solutions to the problems facing Social Security that do not radically transform the program.

I note that privatization has been determined to be a real option, but for long-term security problems, I do have strong reservations. That is a rather radical change because it puts at risk the livelihood of Americans who have worked hard and paid into the system and have nothing else to rely on, for the most part.

Eight-six percent of the persons retired rely on Social Security as their retirement. Health care and nothing else improved until after Social Security because of having that reliable source to depend on at the time that people retired. I am old enough to remember that in Waco, Texas, as a kid, I remember older people having to give up whatever they had and move to Austin, Texas, to what they called the “old folks home” upon retirement. This did not change until after Medicare and Medicaid under the Social Security Act.

I hope, and I believe, that because we are starting in time, that we can find some workable solutions that do not put at risk these people who will best be in or out, depending on the whims of the market, because the market does change. I hope that we can find some in between that would keep us healthy in this fund and at the same time do not put at risk the persons that are most at risk when changes come.

I know this is not for my district, but that's the number one concern throughout the district that I represent. Ironically, before last August, crime was the number one concern, but I have taken in now another large metropolitan area, of middle and upper income people, and it became number one because they are concerned. I've had about 400 letters asking that it not be privatized, and about 4 letters that have indicated they would like to try it.

There has to be some way, to perhaps do a little bit of both, but I hope we don't radically go into this change so that we can move the people with us as we make a change. In my judgment, at this point, we need to take some corrective action for the future, but I will not go far enough to say that it ought to be privatization.

I thank you very much for the time, and I will submit my statement.

[The prepared statement follows:]

Statement of Hon. Eddie Bernice Johnson, a Representative in Congress from the State of Texas

Mr. Chairman, thank you for providing me the opportunity to express my views on the future of Social Security.

Social Security is arguably the most successful anti-poverty program of the U.S. federal government.

In fact, 26 percent of elderly recipients rely on Social Security for 90 percent of their total income. Without Social Security, the poverty rate for those 65 or older would increase from 13% to nearly 50%, which translates to about 12 million people.

Today, Social Security is in good financial shape. The trust fund has over one half trillion dollars reserved to pay future benefits. This year alone, Social Security will take in over $70 billion more than it spends.

The problem posed by the retirement of the Baby Boom generation has been clear for decades. However, the trust funds have been building a reserve that will help finance this generations benefits.

As the trustees reported in April, Social Security can pay full benefits in a timely manner until 2029 without a single change in current law.

In 2029, annual tax revenues will cover about 77 percent of the benefits promised under current law. The remaining projected shortfall in the trust fund, can be fixed with manageable changes to the system.

In 1983, the Social Security trust fund faced insolvency in two months time. This crisis was averted without radical change. Today, radical change is clearly unwarranted.

Nonetheless, legislators must discuss real solutions to the problems facing Social Security that do not radically transform the program.

Privatization has been proposed to solve social security's long term problems. However, the privatization of Social Security is a radical solution because it puts at risk the livelihood of Americans who have worked hard and paid into the system.

Under privatization, the Social Security taxes that we pay would be placed into the stock market. Consequently, if the stock market crashes, many of our elderly citizens will become destitute.

For individuals with additional income such as IRAs and other pensions, privatization is not as life threatening an issue in comparison to someone who depends solely on Social Security benefits to survive.

As a strong supporter of Social Security and the benefits that it provides to many citizens, I will work to ensure that radical solutions, such as privatization, which may cause long-term problems are not enacted.

Various organizations that have a vested interest in dismantling the system are financing efforts to perpetuate misinformation. A lot of money is being spent to convince people that the potentially disastrous privatization of social security is a necessary and preferred change.

For example, the enormous cost of the transition to privatization is rarely discussed. It must be noted that one to two generations of people would have to bear the burden of the cost of this transition.

Mr. Chairman, let's keep Wall Street out of our social security system. If we don't we may have to change the name from social security to social gambling—the gambling with the security of our citizens.

Again, thank you for allowing me to testify on this important issue.

Mr. BUNNING. I thank the panel for their testimony.

The next panel is Peter Deutsch from Florida, Earl Pomeroy from North Dakota, and Nick Smith from Michigan.

Earl, if you would like to begin, you may start this panel.

STATEMENT OF HON. EARL POMEROY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA

Mr. POMEROY. I am happy to, Mr. Chairman. I'm a little apprehensive, sitting next to my colleague, Congressman Smith. I read this morning he's got a black belt, and if we have any policy differences, I hope we resolve them. [Laughter.]

I want to thank you for your leadership on this critical issue, and for having this hearing and giving me a chance to testify.

There are three points I would like to emphasize in my remarks. First is to underscore that Social Security has been, and continues to be, a remarkably successful program. We must not reform away its basic features, which have provided so much to millions and millions over the last 60 years. Second, we must approach Social Security in the context of its role in helping Americans achieve economic retirement security. Social Security, along with pensions and personal savings, form the three-legged stool of retirement security, and we must ensure that as we reform Social Security, we take account of the dramatic changes currently taking place in our Nation's private pension system. And third, we must resist the temptation to fund a redesign of Social Security by additional increases in FICA taxes, which millions of working Americans simply can't afford.

Mr. Chairman, the anecdotal evidence one hears in the press these days, and even from some Members of Congress, is that citizens have lost faith in Social Security, that they believe the system is broken. What I'm hearing is quite different back in North Dakota. The constituents point to Social Security as perhaps the one government program they've got some confidence in, and one that has made a profound difference in their lives. They recognize as I do that Social Security offers all Americans a basic retirement safety net and that it has proven remarkably effective in reducing poverty among older Americans.

What I take from their comments is that we must proceed with caution in making changes to a program most Americans believe has been enormously successful. We should not kid ourselves into thinking that the public has given us license to freely redesign this program from the ground up. Rather than creating a new alternative retirement system, I think our central goal must be, as we focus on the difficult issue of Social Security solvency, to make the modest reforms needed to place Social Security on sound financial footing into the future.

Developments in the private pension system, Mr. Chairman, provide us with guidance as to what direction these reforms should take. I think the changes occurring on the private side should be complemented by the changes that we might consider for Social Security. On the private side, large numbers of employers are shifting from defined benefit pension plans, which guarantee a fixed monthly benefit upon retirement, to defined contribution plans, like 401(k)s, where the benefits are undetermined but the contribution levels fixed. While defined contribution plans represented only 29 percent of workplace pension plans in 1982, they were 56 percent in 1990, and I dare say they are probably a lot higher percent right now.

This shift has profound consequences for American workers, one that Congress really hasn't fully analyzed. With traditional benefit plans, the employee bears very little risk. Employers make the contributions, manage the investments, and pay out a fixed monthly benefit which lasts throughout the worker's retirement. In addition, the benefits are insured by the government through the Pension Benefit Guaranty Corporation.

Defined contribution plans, as you well know, involve substantial risk for individual employees. Workers are responsible for making contributions, they typically direct the investment, and they often receive a lump sum benefit rather than the fixed monthly payment upon retirement. This means that employees run the risk of contributing too little, not managing their investments wisely, or draining their accounts too quickly once they retire. Preliminary reports indicate that those of modest income and education levels have the most difficulty relative to the risks they have been asked to assume under the defined contribution plan.

Now, since Social Security should complement private-sector efforts, increased risks for employees in the private pension system means that more than ever they need Social Security to provide a safety net. Plain common sense tells us that with workers being asked to assume more risks in the private pension system, now is not the time to dump substantial additional risk on them in the Social Security system. Yet, that is precisely what some of the reforms would accomplish. With American workers being asked to walk a higher and thinner pension tight rope, it is not responsible to reduce at the same time the Social Security safety net underneath them.

In trying to rush to closure, I think there are some fruitful areas to pursue, including—I'm very intrigued with the notion of enhanced return through partial investment of the trust funds in the private sector. I think there is a host of complicating factors along with that, but I do think that is one of the things to pursue. I don't intend to indicate that we can invest our way out of the long-term solvency crisis; we can't. Tougher measures will also have to be taken. But that is the way we ought to look.

Now, in addition to Social Security—I want to emphasize this point perhaps above all others in my testimony today. Reforming

Social Security to ensure its long-term solvency will be a difficult task which will likely take us several years to achieve. What we must not do is allow this difficult challenge to deter us from taking steps we can take today to improve the retirement security of working families. We must act now to boost savings incentives and make reforms necessary to expand pension coverage. In other words, regardless of what we do with Social Security, private savings and expanded pensions are going to be a critical part of people having economic security in retirement, that we should move full throttle on that one, regardless of what we do with Social Security.

Thank you, Mr. Chairman, and Subcommittee Members.

[The prepared statement follows:]

Statement of Hon. Earl Pomeroy, a Representative in Congress from the State of North Dakota

Mr. Chairman, thank you for the opportunity to appear before the Subcommittee this afternoon. Reforming the Social Security system to ensure its long-term solvency is one of the most critical public policy issues we confront. I salute you for your leadership on this issue, and I welcome the opportunity to make my views known.

There are three points I would like to emphasize in my remarks this afternoon. First, is to underscore that Social Security has been—and continues to be—a remarkably successful program. We must ensure that we do not reform away its basic safety net features. Second, we must not reform Social Security in isolation. Social Security, along with pensions and personal savings, form the three-legged stool of retirement security. We must ensure that reform of Social Security takes account of the dramatic changes currently taking place in our nation's private pension system. And third, we must resist the temptation to fund a redesign of the Social Security system by raising taxes on America's working families.

Mr. Chairman, the anecdotal evidence one hears in the press these days and even from some Members of Congress is that citizens have lost faith in the Social Security program and believe it is broken. I must tell you that my experience could not be more different. My constituents point to Social Security as the most successful government program around and one that has made a profound difference in their lives. They recognize, as I do, that Social Security offers all Americans a basic retirement safety net and that it has proven remarkably effective in reducing poverty among older Americans. And they recognize the important social insurance function Social Security plays in providing a measure of financial security to survivors and the disabled.

What I take from the comments of my constituents is that we must proceed with caution in making changes to a program most Americans believe has been enormously successful. We should not kid ourselves into thinking that the public has given us license to redesign the program from the ground up. Rather than creating a new alternative retirement system, our central goal must be to make the modest reforms that are needed to place Social Security on a sound financial footing for the long-term.

Developments in the private pension system, Mr. Chairman, provide us with guidance as to what direction these reforms should take. Indeed, our nation's work-based retirement system is undergoing a rapid and profound change. In large numbers, employers are shifting from defined benefit pension plans which guarantee a fixed monthly benefit upon retirement to defined contribution plans such as 401(k)s where the benefits are undetermined but the contribution levels fixed. While defined contribution plans represented only 29% of workplace pension plans in 1982, their share grew to 56% in 1990, and has undoubtedly risen higher since. And while in 1975 87% of participants in workplace retirement plans were enrolled in a defined benefit plan, by 1993 this percentage had dropped to 56%.

This shift has profound consequences for American workers. With traditional defined benefit pension plans, the employee bears very little risk. Employers make the necessary contributions to the plan, manage the investment of these contributions and pay out a fixed monthly benefit which lasts throughout the worker's retirement. In addition, benefits are insured by the government through the Pension Benefit Guaranty Corporation. Defined contribution plans, however, involve substantial risk for individual employees. Workers are responsible for making contributions to the plan, they typically direct the investment of their own accounts, and they receive a lump sum benefit rather than a fixed monthly payment upon retirement. This means employees run the risk of contributing too little to the plan, of not managing their investments wisely and of draining their accounts too quickly once they retire. Preliminary reports indicate that those of modest income and education have the most difficulty navigating these new retirement risks.

Since Social Security should complement private-sector efforts when it comes to providing retirement security, increased risks for employees in the private pension system make it more important than ever that workers have Social Security as their retirement safety net. Plain common sense tells us that with workers being asked to assume more risks in the private pension system now is not the time to duplicate these very same risks in the public pension system. Yet this is precisely what many of the more sweeping Social Security reform proposals would do. With American workers being asked to walk a higher and thinner pension tight rope, it would simply be irresponsible to weaken the Social Security safety net beneath them. If anything, we should be particularly careful in light of the riskiness of today's private-sector plans to preserve and even strengthen the retirement safety net which our Social Security system provides.

Proposals from the Advisory Council and others for fundamental redesign of the Social Security system would also require the imposition of substantial new payroll taxes on American workers. I believe that hiking payroll taxes in this way would be patently unwise. The burden of such a tax increase would be particularly onerous for the many self-employed farmers and small businesspeople who pay both the employer and employee share of payroll taxes—already a whopping 12.4% of earnings, 15.3% when Medicare is factored in. Moreover, because the Social Security payroll tax is regressive in its effect, any increase would disproportionately hit the low and moderate income families who are struggling so hard each month just to make ends meet. Surely we can all agree that the tax burden on these families is already too high. Financing a fundamental redesign of Social Security is simply an insufficient justification for pushing their taxes higher still.

Mr. Chairman, as your subcommittee moves forward to consider reforms to Social Security, I hope that you will keep in mind the views of North Dakotans and other around this nation who want to see this successful program reformed but not remade. I also hope that you will not compound the new and profound retirement risks that workers are facing in the private pension system, nor add to the already heavy tax burden on working families. Thank you for the opportunity to share my views.

Mr. BUNNING. Thank you.

Nick Smith.

STATEMENT OF HON. NICK SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. NICK SMITH. Mr. Chairman, Subcommittee Members, it's going to be hard for me to do it in 5 minutes and keep your attention, but bring those charts on down closer.

[Charts are being retained in the Committee's files.]

Mr. BUNNING. Everybody else has, Nick, so you're burdened with that problem.

Mr. NICK SMITH. I have introduced the only bill in the House of Representatives that is scored by the Social Security Administration to keep Social Security solvent for the next 75 years. So the bill has been introduced.

One thing that I was very concerned about—and there's only two ways to solve the Social Security problem. I'm not going to go into the background. You folks are aware of the fact that Dorkas Hardy says Social Security could have less money coming in than is required for the payout as early as 2005. I'm not going to go into all the background and the demographics. The fact is that when we start bringing less money in, government is either going to have to increase taxes on somebody to come up with the additional money, or borrow it from someplace else. The longer we put off coming up with solutions, the more drastic those solutions are going to have to be.

I heard an earlier comment of let's just increase taxes. Since 1971—well, on this chart, 78 percent of families now pay more in the payroll taxes than they do in the income taxes. Let's do it some way besides increasing taxes on workers.

This chart shows how taxes have increased over the years. It gives you the perception of the problem of increased taxes. Down in the bottom right-hand corner is the point that I would like to drive home. We have increased Social Security taxes 36 times since 1971. So it seems to me that we should be creative enough to do it in some other way.

Mr. PORTMAN. Does that include the employer's contribution?

Mr. NICK SMITH. That includes the employer contribution.

Here is what we're facing, the fact that Social Security is not a good investment. This is how long it's going to take you to get back what you and your employer put in, plus what Treasury was paying in interest in those particular years since you first paid in the tax. If you retired in 1960, it takes 2 years; if you retire this year, it's going to take about 17 years. If you retire after 2015, you're going to have to live 26 years after retirement to get back what you and your employer put in, plus the interest Treasury is paying.

Treasury doesn't pay much interest. They're paying 2.3-percent real return on interest. That's why every one of the three advisory groups, that turned into three because they couldn't come up with one agreed upon solution, each suggested some privatization.

Let me briefly go through my proposal. The only way to solve the Social Security problem, as far as I'm concerned, is very undesirable. You either increase revenues or you decrease benefits. If anybody has got any suggestions for any other ways, then let's hear them.

One way to increase revenues is some privatization. I don't know if you can see the charts, but I'll read them. There is no tax increases——

Mr. BUNNING. Mr. Smith, those are for very good eyes. [Laughter.]

Mr. NICK SMITH. You have very good eyes.

Mr. BUNNING. Some of us with trifocals cannot read this.

Mr. NICK SMITH. I'm worried about Mr. Hulshof.

There is no tax increase in my proposal, no transition cost. The reason there is no transition cost is because I simply use the surpluses coming into the Social Security Trust Fund as that amount that's going to be allowed to be privately invested. And you know what the magic of compound interest is.

Number three, it balances the Social Security system for the next 75 years. Newly hired State and local government employees would be required under my bill to join Social Security. Right now there's a half-a-dozen States that are not having their employees do Social Security.

The retirement age. It allows the private investment account withdrawal at age 60. So what you're allowed to privately invest, which starts at 2.3 percent of payroll, ends up to be over 10 percent, out of the 12.4 percent, is what you're allowed to privately invest. You can take that out as early as age 60. That's sort of a trade off for increasing the retirement age by 2 years over the next 24 years. The retirement age is ultimately indexed to life expectancy, so this, at least in theory, would keep it solvent forever.

Briefly, the other changes are that you have a private investment account. You gradually reduce the increase in benefits. Couples will receive 133 percent. As a minimum for widows and widowers, we would actually increase benefits. After the first spouse dies, she/he would have 110 percent of benefits rather than 100 percent.

Let's put up the supporters to just give a brief view of those who have supported it. Well, they can't read that, either. Three senior groups have supported this concept along with many of the youth groups. The Jaycees are taking it around the country as a proposal. I'm running it up the flag pole as one possible solution. I think we have simply got to deal with it.

Thanks for having the hearing.

[The prepared statement follows:]

Statement of Hon. Nick Smith, a Representative in Congress from the State of Michigan

Today, I will present my views on Social Security reform.

Social Security is in financial trouble. Almost everyone agrees dramatic steps must be taken to clean up the way Social Security is financed. Social Security surpluses of revenues over payments to beneficiaries are projected to end as early as 2005.

Social Security is not a good deal for anybody that has not retired. For instance, men retiring in 1997 will receive about 1 percent rate of return on their and their employer's Social Security contributions. This means that men and women retiring in the 21st century will receive thousands of dollars less than they might have received for investments in stocks, bonds, CDs, or mutual funds. If a person's Social Security funds had been invested in the average stocks and bonds, over the last 40 years, the return would have averaged 9 percent. We must reform Social Security—making it a good deal for all Americans.

How soon should we deal with Social Security's impending bankruptcy? The sooner the better. The longer we wait the more drastic the steps we will have to take.

The Social Security "fix" can only be accomplished in two ways:

- reduce benefits
- increase revenues

None of these are fun or exciting. You have hard work ahead as you craft legislation to repair Social Security.

My Social Security Solvency Act uses a combination of many small changes to achieve fiscal solvency for Social Security over at least the next 75 years. In fact my bill is the only legislation that has been introduced in the House that is certified by the Social Security Administration's actuaries as keeping Social Security solvent.

My Social Security Solvency Act allows each worker to establish a personal retirement security savings account (PRSA). Workers would be able to save, in their personal account, 4 percent initially, rising to 10 percent, from their 12.4 percent FICA tax. An additional 10 percent of gross wages could be added to their personal retirement savings account.

My testimony is drafted to answer the three questions posed by the subcommittee:

1. To what degree is Social Security Reform necessary?
2. Are the recommendations of the Advisory Council on Social Security and other reform proposals constructive? and
3. Are there specific recommendations that Congress should consider as it moves forward?

Now let me answer the questions.

1. To what degree is Social Security Reform necessary?

I believe that it is necessary to begin reforming Social Security this year. First, we must demonstrate the retirement security alternatives. My retirement security demonstration bill would allow for pilot testing of major proposals.

It is almost universally recognized that Social Security, with no changes, is headed towards bankruptcy. The only question is when will it happen? The obvious response is to make Social Security work better. This means guaranteeing a fair return for workers as well as continuing equitable retiree benefits.

Most Americans who are retired depend on Social Security for a major part of their retirement income. Today, fully 80 percent of Americans depend on Social Security for at least 50 percent of their retirement income. Without Social Security reform, the financial future of America's seniors is in jeopardy.

In 1935, the Social Security Act was enacted to provide a government guarantee against poverty. Although most people were unaware at the time, Social Security was designed as a pay-as-you-go system where current workers taxes go to pay current retirees' benefits.

Changing demographics, however, have threatened the solvency of the pay-as-you-go system. In 1950, there were 17 workers paying taxes to support the system for each retiree. Today there are only 3, and by 2029 there will only be 2. This change was been caused by a combination of longer life spans and lower retirement ages. In 1935 the retirement age for Social Security was 65 and life expectancy was 63. Today, the early retirement age is 62 and life expectancy is 76.

To make up for this falling ratio of tax paying workers to retirees, Congress has continually raised taxes. In 1950 only 3 percent of a worker's first $3,000 in earnings was taxed. Today we tax 12.4 percent of a worker's first $62,700 in earnings. Social Security taxes have been raised 37 times since 1970.

By 2010, members of the huge baby-boom generation will start to retire and draw benefits from the government's three biggest entitlement programs—Social Security, Medicare, and Medicaid. In the 104th Congress, I introduced the Social Security Solvency Act (H.R. 3758) on July 9 in order to save and preserve Social Security. In my proposal, we have ruled out tax increases, additional debt, and changes in benefits for essentially all current retirees or those over 57.

My proposal slows down the increase in benefits for higher income seniors and allows individual workers to invest some of their tax dollars in their own personal retirement savings accounts. Private investment choices will be limited along the lines of restrictions for IRAs, but will be the property of workers. If a worker earns an average return on his investments, he will get back more from Social Security under my legislation than under the existing program.

The worst myth about Social Security is that there exists a trust fund filled with the surpluses of years of Social Security tax payments. In truth, the trust fund, like an empty vault, is filled with government IOUs. My Social Security bill stops the federal government from future raids on surplus money coming into the trust fund. When Congress reconvenes in January, I plan on reintroducing the legislation as the beginning of an effort to save Social Security—make it solvent and ensure benefits for future retirees.

My proposal for Social Reform is:

The Social Security Solvency Act

- No Tax Increase
- No Transition Costs
- Private Investment Accounts using trust fund surplus
- Gradually reduces the increase in benefits for high income retirees
- Allows private investment account withdrawals at age 60
- Increases retirement age two additional years
- Assumes a 0.15 percent lower measured CPI growth
- Allows voluntary annual additional $2,000 PRSA contribution
- Balances the Social Security System for the next 75 years
- Retirees may choose payment options—lump sum (up to ⅓ of discounted present value) with annuity or annuity only.
- After full payback plus interest, gradually reduces benefits for those making over $50,000
- COLA increase limited to dollar amount at 30th percentile for high income
- Newly hired State and local government employees join Social Security
- Couples receive a minimum of 133 percent of higher benefit
- Widows or widowers receive minimum 110% of married benefit payment
- Retirement age is ultimately indexed to life expectancy

Individual savings accounts (PRSA) will accumulate considerable sums resulting in higher retirement benefits. The surpluses coming into the trust fund allow private investments (PRSAs) to start at 4 percent of payroll and increase to 10 percent of payroll in the year 2070.

My Social Security Solvency Act is the only House bill that has been "scored" by the Social Security Administration to keep Social Security solvent for at least the next 75 years.

2. Are the recommendations of the Advisory Council on Social Security and other reform proposals constructive?

There are a lot of good ideas out there. For instance, the Advisory Council has unanimously agreed that Social Security's financial problems are manageable and part of the solution is investing in the private sector. These are compelling reasons to pilot tested private investment options.

We need to get going with retirement security demonstrations. This will allow us to determine what—works, is attractive to the customer, and can be administered easily and fairly. Pilot testing of the reform proposals should start no later than October 1998 (Fiscal year 1999). My draft bill (see attached) gives the Secretary of Treasury in consultation with the Social Security commissioner and congressional committees the authority to construct and implement retirement security demonstrations.

Reform proposals that need to be considered include:

- various IRA options proposed by members of Congress,
- options that would level the playing field for parents, especially women, saving for retirement,
- proposals that would improve pension portability,
- the Gramlich proposal,
- the Schieber-Weaver proposal,
- Senator Gregg's proposal,
- Senator Kerrey's proposal,
- My proposal,
- Representative Sanford's proposal,
- a back-loaded Individual Retirement Account,
- a union-sponsored savings plan, and
- other options to be developed by the Treasury Department, in consultation with the Ways and Means and Finance Committees, and private sector organizations.

Beyond these good ideas, there are retirement security alternatives that are actually working. I asked the Congressional Research Service (CRS) to develop a comparison chart describing retirement security/Social Security options currently underway in various countries, states, and local governments. (See Attached)

Australia, Chile, Columbia, Singapore, and United Kingdom have *operating* retirement security systems that merit review. Also, various state and local systems offer ongoing demonstrations of what can work. These systems often return much more than Social Security. A study by economists at the Florida State University and Miami University found that the state and local government employee systems—covering 1.9 million workers—often pay retirement benefits of 2.5 to 7 times more than Social Security.

Time is important. Workers should get the best deal possible. Studies of Social Security/retirement security systems indicate that a much better deal can be had. It is time to demonstrate retirement security options—letting workers have greater control of their future.

3. Are there specific recommendations that Congress should consider as it moves forward?

I propose two specific legislative recommendation for consideration by this Subcommittee as it moves forward:

- The Social Security Solvency Act of 1997 (Discussed above)
- Retirement Security Demonstration Act of 1997

Retirement Security Demonstration Act of 1997

Demonstrations, pilot tested under the Retirement Security Demonstration Act, will include options suggested by the three legs of the retirement security "stool":

- private plans,
- workplace pensions, and
- Social Security.

The demonstrations will:

- provide test marketing of the various options of funded retirement programs;
- confirm administrative feasibility of specific proposals;
- indicate the relative popularity of various proposals;
- establish costs of various proposals;
- provide benchmarks against which to measure savings patterns; and
- reduce accrued liabilities of the Social Security trust fund.

Significant issues under the demonstration program include:

- A means of testing the feasibility and popularity of private savings proposals;
- No reduction in payroll tax receipts by Social Security Administration;

- No new compliance requirements for employers;
- The demonstration is based on equitable solutions to a growing problem; and
- The demonstration will likely prove to be extremely popular.

CONCLUSION

Thank you for your willingness to tackle Social Security reform. You are to be complemented for taking on a most important issue facing America's future.

[Attachments are being retained in the Committee's files.]

Mr. BUNNING. Thank you, Mr. Smith.

Mr. NICK SMITH. I assume my testimony will be submitted for the record.

Mr. BUNNING. All of your testimony will be put into the record—all of it.

We have a vote on. If you can take 5 minutes, we will get to the vote afterwards. Go right ahead.

STATEMENT OF HON. PETER R. DEUTSCH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. DEUTSCH. Thank you, Mr. Chairman. I appreciate it. My comments are not quite as extensive, but if they can be in the record as well, I would appreciate it. I will just summarize them.

I guess I would focus really on three points. The first is a little bit of a historical perspective of bringing us back to before Social Security existed in America. For a hearing on Social Security, I think a little bit of history, and not ancient history, is really appropriate.

When we look at what America was like prior to Social Security and today, it's a much different country. I would offer that the Social Security system, as a system, with the faults we can talk about, is still the best government program created by man, period. I say that very seriously and very specifically, that it has fundamentally changed at least one generation, if not two generations, of Americans in terms of the quality of life that they have at the present time. It has fundamentally changed America, I believe, in an incredibly positive way.

That sort of backdrop I think sort of drives a number of concerns and conclusions that I have. The first is that today, as we are today and looking into the 10-, 15-, or 20- year horizon, in a sense the system is not broken. For that period of time, to take any kind of dramatic action today, to me doesn't make sense.

We can talk about issues beyond that, but the system is an insurance system and, as an insurance system, it is actuarially based. It has met actuarial challenges before. One of the actuarial challenges is that Americans live far longer today than they did previously.

I guess I'm very fortunate, since both my parents are still alive. They're 73 years old. I have actually been looking at things with them in terms of how to draw on their IRAs and their pension. An incredible number is that, at their age, their joint life expectancy is over 18 years. They're 73 years old, and for the average 73-year-old couple today, the joint life expectancy in America is 18 years. That's an incredible statistic.

When Medicare was set up 31 years ago, the average life expectancy for Americans was 65 years old. I think those numbers are sort of mind blowing, in terms of the implications they have.

I guess really, in conclusion, in terms of my statement and my comments, it is that yes, we have plenty of concerns in terms of the baby boom generation, which, in fact, I'm a part of as well. My year of birth is 1957, which was actually the year that more Americans were born than any other year in our Nation's history. We're the peak of the baby boom, those of us who are 40 years old today. For that, though, we don't expect to retire for over 20 years. So that Congress, over this period of time, will have plenty of time to address the needs of the Social Security Program. I think it's important to emphasize again that the system is not in crisis, that we need to treat it as an insurance plan, which I'm sure Congress ultimately will.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. Peter R. Deutsch, a Representative in Congress from the State of Florida

As a representative of south Florida, I represent a district that by far has one of the largest senior populations in the country. I work with my constituents every day, and I know that the Social Security program is critical to my constituents' ability to live with dignity and security. Many of my constituents would be living below the poverty line without the Social Security benefits that they rely on to meet the ever-increasing cost-of-living for seniors. At the same time, as the father of two young children, I want to be sure that we do our job to ensure that future generations will continue to be able to rely on Social Security in their later years.

We have all read the most recent report by the Social Security Trust Fund Trustees, and the Trustees are clear that the program will remain fully solvent, paying full benefits on time until 2029, and continue to provide three-quarters of benefits for the next 70 years thereafter. The Trustees are also clear that we have the time to fully discuss and develop a strong plan to protect the long-term solvency of the program. Clearly, we must not delay action on this critical issue because the sooner we implement changes, the more time future beneficiaries will have to adapt to any changes in the program, and to plan their futures. At the same time, we must not rush to make unnecessary and dramatic changes to the program which is fundamentally working or that would undermine the basic principles of the program. We cannot accept any proposals that would renege on the contract the government has with current beneficiaries and those who have planned their retirements around the current program.

The fact is that the Social Security program has been an unprecedented success. For nearly 60 years, Social Security has been and remains our nation's most effective anti-poverty program. According to the Census Bureau, without Social Security, poverty among the U.S. elderly population would be over 50 percent. The program continues to run at a surplus and has not contributed one cent to the federal deficit. Now the challenge is to ensure that it will continue to be a success in the future as the baby boomer generation begins to retire.

We must remember that throughout its 60 year history, the Social Security program has undergone many periodic adjustments to respond to changing demographics. As economic and demographic realities fluctuate, reasonable adjustments are required from time to time. However, unlike other government programs, the solvency of the Social Security program must be estimated over a 75 year period, despite the fact that it is difficult to predict these future fluctuations. A few solid years of strong economic growth, for example, could dramatically improve the long-term picture for Social Security. If the economy grows at even 1 percent more than the conservative estimate assumed by the Trustees, the Trust Funds would remain solvent over the 75 year period.

Now, there are ways to make the necessary incremental adjustments that will strengthen the program and extend the solvency of the Trust Funds. And, again, there is time to look at a myriad of proposals to do exactly that. But I am particularly leery of the suggestion that we move to privatizing the Social Security program when to do so could jeopardize both the purpose and the success of the program.

We cannot forget this purpose or the unique nature of the Social Security program. Social Security is unlike any private pension plan. It is much more than that. Not only does Social Security provide guaranteed benefits to senior retirees, adjusted to keep pace with inflation, but it is also insurance against disability for workers and survivor protection for families in event of the death of the breadwinner.

Privatizing the program into separate individual accounts for retirement would fundamentally change the very nature of the program by eliminating the program's guaranteed benefits and replacing it with benefits that would be uncertain. Benefits would be based solely on the return of individual investment choices and would shift investment risks to individual workers, instead of spreading risk out over the entire workforce as Social Security does. And, as we all know, there are no guarantees on Wall Street. And what about the worker who dies or becomes disabled before the investment had a chance to accrue? What we will be looking at could be increased enrollment in needs-based programs such as welfare.

We also cannot deny the cost of moving to a system of individual accounts. Current administrative costs of the Social Security program are equal to only about 1 percent of the total program budget. The transition to individual accounts is estimated by the Social Security Administration at more than $7 trillion. That's going to be paid for with higher individual taxes, a much larger federal deficit or both.

What we need to do is to take the steps that are necessary to strengthen the Social Security program, not gut it. That's what my constituents want, that's what the majority of Americans want, and that is the right thing to do. We should not try unnecessary, risky and dramatic changes that for millions of Americans could once again equate aging with a life of poverty.

Mr. BUNNING. Thank you all for your testimony.

We will recess for the vote, and we'll be back as soon as we can. Thank you.

[Recess.]

Mr. BUNNING. The Subcommittee will come to order.

I want to assure all Members who are testifying that their full statements will be put into the record. Since you're the only one here right now, Bob, you may go ahead and begin.

STATEMENT OF HON. BOB FILNER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. FILNER. Thank you, Mr. Chairman. And since you're the only one here——

Mr. BUNNING. Well, there will be others joining us.

Mr. FILNER. I appreciate your holding this hearing, giving us the opportunity to let you know where we are from various parts of the country. Clearly, in this Nation, and certainly in my district in southern California—the farthest southwest part of the Nation as you can go—we support the Social Security Program and believe it can and should leave us and future generations financially secure.

More than 63,000 residents of my district receive Social Security every month, and it provides a benefit to 99 percent of retirees, as you know, in the United States. It provides a secure base for our senior citizens and allows their children—a very important point, I think—to concentrate financial resources on their own families.

My parents are 83 years old. Their sole source of support right now is Social Security. It gives me the ability to worry about my kids in college and their future without having to have great financial concerns for my parents.

But you are holding this hearing because Social Security has a financing problem that we all have to understand and address.

Clearly, the sooner we resolve it, the less drastic the solutions will need to be.

I would like to add my voice to those who think, however, that we have time to discuss wise and prudent adjustments. While in 1983, the Social Security Trust Fund was going to be insolvent in 2 months if Congress didn't act, today we have 30 years to prevent a similar situation.

So I think radically altering the system is not warranted. We can fix the projected shortfall with relatively minor changes to the system. Certainly privatization and gambling with retirement income is not the answer.

As we search for solutions to our problems, we should also keep in mind the features of the program that work. Foremost among them is the availability of benefits to all workers who earned them, regardless of income. So I agree with the Social Security Advisory Council that we should reject means testing. Tying benefits to need sends the wrong message to workers and to beneficiaries, a signal that if they save for retirement, their Social Security could be reduced or lost.

In addition, the program's progressive benefit formula already differentiates between those who are more highly compensated and those who are not. Low-wage workers receive a greater return on their payroll taxes than average and high earners. This practice works, but additional tilting away from those who earn more could punish productivity and create the impression that Social Security is, in fact, a welfare program. I think we know that nothing could be further from the truth.

I believe that privatization would tilt the Social Security Program far away from low-wage workers by introducing a huge element of uncertainty into the economy and into a retiree's monthly income. I think we must reject this change. Currently, Social Security is the secure portion of a family's retirement portfolio. An individual's savings and investments now are the risk-taking element. Privatizing makes Social Security and an individual's retirement income subject to the whims of the stock market and the skills, or lack thereof, of a person's financial advisor. In short, gambling with our seniors' future livelihoods is unacceptable.

With privatization, I believe we would be placing all of our retirement "eggs" in one unstable basket, risking scrambling all of our retirement plans.

Proponents of privatization suggest that it will promote national savings, but shifting payroll taxes from the Social Security Trust Funds into individual accounts does not increase the national savings by one penny.

It is my opinion that misinformation regarding Social Security has been spread by powerful groups determined to turn the entire fate of America's retirees over to Wall Street. In contrast, making reasonable modifications to restore Social Security's long-term imbalance is a far more sound and prudent course.

Let me repeat. We have time to fix the problems. Social Security has stood the test of time and has proven to be a fair and successful program. We do not need to rush into unknown waters with privatization and other radical proposals. Our seniors and future seniors deserve to have this body take a moderate and deliberative approach to altering a program that has served so many so well for so long.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. Bob Filner, a Representative in Congress from the State of California

Along with the vast majority of Americans, I strongly support the Social Security program and believe that we have a responsibility to make it financially secure for generations to come!

When I am in my Congressional District, I see this highly successful program at work. More than 63,000 residents of my district receive a Social Security benefit every month. Social Security provides a guaranteed benefit to 99% of retirees in the United States! Social Security provides a secure base for senior citizens and allows their children to concentrate more financial resources on their own families.

However, we all realize that Social Security has a financing problem that we must address. The sooner we resolve it, the less drastic the solutions and the greater the lead time for people to adjust for their own retirement. I do want to point out, however, that we have time to discuss and decide on wise and prudent adjustments. In 1983, the Social Security Trust Fund would have been insolvent in two months if Congress had not acted. Today, we have *30 years* to avoid a similar situation.

Radically altering the system is not warranted—the projected shortfall in the Trust Fund can be fixed with relatively minor changes to the system. Privatization and gambling with retirement income is not the answer! The Social Security Administration has been aware of the problem posed by the retirement of the Baby Boom Generation for decades. Social Security has faced challenges in the past and can face this challenge of the future without dismantling the entire system.

As we search for solutions to Social Security's long-term problems, we should think about the features of the program that work. Foremost among them is the availability of benefits to all workers who earned them, regardless of income. Therefore, I agree with the Social Security Advisory Council that we should reject means testing. Tying benefits to need sends the wrong message to workers and beneficiaries—a signal that if they save for retirement, their Social Security (to which they are currently contributing) could be reduced or lost.

In addition, the program's progressive benefit formula already differentiates between those who are more highly compensated and those who are not. Lower-wage workers currently receive a greater return on their payroll taxes than average and high-earners. This practice works, but additional tilting away from those who earn more could punish productivity and create the impression that Social Security is somehow a welfare program. Nothing could be further from the truth.

On the other hand, privatization would tilt the Social Security program far away from lower-wage workers, by introducing a huge element of uncertainty into the economy and into a retirees' monthly income. Therefore, we must reject this change. Social Security currently is the secure portion of a retirement portfolio. An individuals' savings and investments now are the risk-taking segment. Privatizing makes Social Security *and* an individuals' retirement income subject to the whims of the stock market and the skills, or lack thereof, of a person's financial advisor. In short, gambling with our seniors' future livelihoods is unacceptable.

With privatization, we would be placing all of our retirement "eggs" in one unstable basket—risking scrambling *all* of our retirement plans!

Proponents of privatization suggest that it will promote national savings, but shifting payroll taxes from the Social Security Trust Funds into individual accounts does not increase the national savings by one penny.

Misinformation regarding Social Security has been spread by powerful groups determined to turn the entire fate of America's retirees over to Wall Street. In contrast, making reasonable modifications to restore Social Security's long-term imbalance is a more sound and prudent course.

Let me repeat—we have time to fix the problems! Social Security has stood the test of time and has proven to be a fair and successful program. We do not need to rush into unknown waters with privatization and other radical proposals. Our seniors and future seniors deserve to have this body take a moderate and deliberative approach to altering a program that has served so many so well.

Mr. BUNNING. Thank you for your testimony.
Tom Petri.

STATEMENT OF HON. THOMAS E. PETRI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. PETRI. Thank you very much, Mr. Chairman, for scheduling this very important Subcommittee hearing this afternoon.

I appreciate the opportunity to testify on behalf of the Social Security reform plan outlined in my bill, H.R. 1611, the Retirement Security Act. You will no doubt hear from a number of Members who will point to the low interest earned by the trust fund, as it is currently required to be invested in Treasury securities. I'm sure this Subcommittee has seen all the data reflecting how well the typical retiree could have done if his or her contributions to the Social Security system had been invested in the stock market, for example, and received a return equal to that of an appropriate index fund.

My bill seeks to use the benefits of the private market to place Social Security on a sound financial footing, as do a number of other reform plans. But more than that, I seek to maximize the magic of compound interest by beginning the saving for future retirees as soon as they are born.

My plan would create a personal retirement account for each child born after the date of enactment, when his or her parents apply for a Social Security number at the hospital. The government would place $1,000 in the account when it was created. The parents or guardians would then choose among the same investment funds available to Federal employees today through the Federal Thrift Savings Plan. As you know, that plan's C fund and F fund have historically achieved much better returns than the Social Security Trust Fund. After reaching the age of majority, the accountholder would make the investment decisions among these funds.

The accountholder would have the option of adding his or her own money, up to $2,000 a year tax free, in the account. However, even if nothing were added beyond the initial $1,000, if invested in the common stock fund, that amount could be expected to grow to around $700,000 in absolute terms by the time of retirement. In real dollars, at the historic average 7-percent real rate of return for common stocks, that amount would be about $83,000.

The crucial point is that that $83,000 would be just enough to pay completely for today's average Social Security benefit. It sounds amazing, but it's true. The keys are the 7-percent real rate of return and the long period of compounding. Since a 7-percent rate of return doubles an investment every 10 years, roughly, the extra 20 years gained by starting these accounts at birth rather than at about age 20 makes the eventual account balance four times as large as it would otherwise be.

All funds in these accounts, including private contributions, would be used first to pay whatever Social Security benefits were owed to the holder at retirement. So that would strengthen the fund for people that didn't participate. If the account holder died before becoming eligible, the funds could be used to pay the survivor benefits.

Only after the account's funds were depleted would money be drawn from the Social Security Trust Fund. Should an individual, as a result of making additional contributions, have more available in the account than would be necessary to pay Social Security benefits for the rest of his or her life, there would be several annuity options available. The tax advantages of these accounts would make it worthwhile for many people to make private contributions even though a portion of those contributions might pay for Social Security benefits. In this way, future obligations of the Social Security Trust Fund would be further reduced.

At recent birth rates, the cost of my bill would be about $4 billion per year. In order to pay for it, my bill calls on the President to issue a list of Federal assets to be sold each year, and Congress is to vote up or down on the entire list. Of course, the Federal Government sells assets every year anyway. However, this money is used for current spending. This is not a sound financial practice. If we are going to be selling off assets, we should use the money to invest in something which will gain in value over time, such as retirement accounts with real assets.

Clearly, this bill is a long-term solution. The current system is expected to go bankrupt long before those who have not yet been born become eligible for retirement. Therefore, even if my bill is adopted, something will have to be done to keep the system solvent in the meantime. However, eliminating most of Social Security's obligations to all those retiring after a date 67 years in the future, at the small cost of $4 billion per year in the interim, will make it far easier to deal with the problem of all those retiring before that date.

How that is done I leave to you and others. But I do think that allowing a decent rate of return through investment in the private market is the key. However, I also think that it's essential that individuals rather than the government make the investment decisions in any such plan. Otherwise, placing such a massive amount of money into the stock market or other private investments, all controlled by the government, would essentially socialize the U.S. economy.

You have a monumental task in front of you: To save the Social Security system for future generations, fulfill the promises made to current and soon to be retirees, correct the flaws in the current system, and do it all in a way which is politically possible. This will not be an easy task, but I'm gratified that you have begun the process and I hope I have made a small contribution toward that end.

[The prepared statement follows:]

Statement of Hon. Thomas E. Petri, a Representative in Congress from the State of Wisconsin

I appreciate this opportunity to testify on behalf of the Social Security reform plan outlined in my bill H.R. 1611, the Retirement Security Act. You will no doubt hear from a number of members today who will point to the low interest earned by the Trust Fund as it is currently required to be invested in Treasury securities. I'm sure this committee has seen all of the data reflecting how well the typical retiree could have done if his or her contributions to the Social Security system had been invested in the stock market, for example, and received a return equal to that of an appropriate index fund.

My bill seeks to use the benefits of the private market to place Social Security on a sound financial footing, as do a number of other reform plans. But more than that I seek to maximize the magic of compound interest by beginning the saving for future retirees as soon as they are born. My plan would create a personal retirement account for each child born after the date of enactment. The government would place $1000 in the account when it was created. The parents or guardians would then choose among the same investment funds available to federal employees through the federal thrift savings plan. As you know, that plan's C fund and F fund have historically achieved much better returns than the Social Security Trust Fund. After reaching the age of majority, the account holder would make the investment decisions among these funds.

The account holder would have the option of adding his or her own money, up to $2000 a year tax free, in the account. However, even if nothing were added beyond the initial $1000, if invested in the common stock fund, that amount could be expected to grow to around $700,000 in absolute terms by the time of retirement. In real dollars, at the historic average 7% real rate of return for common stocks, that amount would be about $83,000.

The crucial point is that that $83,000 would be just enough to pay completely for today's average Social Security benefit! It sounds amazing, but its true. The keys are the 7% real rate of return and the long period of compounding. Since a 7% rate of return doubles an investment every 10 years, the extra 20 years gained by starting these accounts at birth rather than about age twenty makes the eventual account balance 4 times as large as it would otherwise be. All funds in these accounts, including private contributions would be used first to pay whatever Social Security benefits were owed to the holder at retirement. If he or she died before becoming eligible, the funds could be used to pay the survivor benefits. Only after such funds were depleted would money be drawn from the Social Security Trust Fund. Should an individual, as a result of making additional contributions, have more available in the account than would be necessary to pay Social Security benefits for the rest of his life, there would be several annuity options available. The tax advantages of these accounts would make it worthwhile for many people to make private contributions even though a portion of those contributions might pay for Social Security benefits. In this way, future obligations of the Social Security Trust Fund would be further reduced.

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This committee has a monumental task in front of it: To save the Social Security system for future generations, fulfill the promises made to current and soon to be retirees, correct the flaws in the current system, and do it all in a way which is politically possible. This will be no easy task but I am gratified that the committee is holding these hearings and has begun to try to tackle this issue.

Mr. BUNNING. Tom, thank you very much.

Dan Miller, if you would like to begin.

STATEMENT OF HON. DAN MILLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. MILLER. Thank you very much, Mr. Chairman. I have a written statement that I will submit for the record.

Mr. BUNNING. Without objection, it will be put into the record.

Mr. MILLER. Thank you.

Thank you for having this hearing. This is part of the process of moving toward saving the Social Security system. It is one of the programs that we all agree, Democrats and Republicans, that we need to save and strengthen and preserve for future generations.

The time is right that we can now address this issue, because, first of all, we're moving toward a balanced budget and it gives us that opportunity. And we have about 15 years before the cash flow turns negative in the Social Security Program. The sooner we address the problem, the easier and less painful it's going to be as we work toward a solution.

My congressional district, as you may know, since in your former career you visited there, and Mr. Petri's in-laws are retired residents in my district—has more seniors than anywhere else in terms of the country, in terms of congressional districts, so issues of seniors are of great concern to me. During the Medicare debate during the past 2 years, I spent a large amount of time visiting mobile home parks, condominiums, retirement areas, talking with seniors and listening and learning their concerns. So, it is an issue of great concern to me. It's not just for the seniors but the biggest part of my economy is related to the senior citizens. It affects everybody in my particular district.

We all understand the problem. I call it the 2010 problem, where 2010 is 65 years after the end of World War II. That 65 years is when the baby boom started, and that's when they start retiring, 65 years after 1945. So it's a demographic problem. We talk about Florida having senior citizens. But the entire United States is going to look like Florida within not too many years as the baby boomers start retiring and as the population starts to age. We don't have a trust fund like people think we have. We have to have a trust fund to really pay for this problem.

The solutions: A couple of my colleagues talked about solutions. There are different options. We've had some commissions that have addressed the issue. There's a lot of experts on the issue. The most recent commission came up with several options but couldn't agree. What we need to do is move toward a commission to address that problem. I personally think we should move toward the direction of at least part of the Social Security money being used in private investment, to have some control over it. I don't think we will be able to move totally to that type of system. But whatever we do has to be done in a bipartisan fashion.

Just like Medicare. There was a great model used this year in Ways and Means, passed by your Committee by a 36 to 3 vote, and passed similarly in the Senate. But the fact is it's bipartisan. If we don't address this in a bipartisan manner, it's not going to happen.

Let me make two recommendations right now. One is, on this commission that's a part of our budget, we have got to make sure the composition of the commission is one that will come up with recommendations that this Congress and the President will accept. When Mrs. Clinton developed the health care plan, she developed it in secret. It never even passed through a Democratic Ways and Means Committee. The Kerrey Commission came up with ideas but it didn't get the full support of Congress. So whatever the membership of that commission, it's got to have membership that will work closely with this Congress and with the next Congress, Democrats and Republicans, and with the administration. So the composition of this commission, in my opinion, is very important, based on the experience we've had with past commissions.

The other recommendation is education. I was very involved in education on the Medicare issue over the past 2 years. I worked with seniors and tried to understand their concerns. Ninety-five percent of the American people, approximately, know there's a problem with Social Security. As for the younger people, most of them believe in UFOs than think Social Security will be there for them. So people are aware that there's a problem.

In listening to seniors talk, one of the things I found is that people have stereotyped the seniors, that "we all just want more for ourselves." Seniors lived through the Great Depression. Seniors lived through World War II. They know what sacrifice is, and they understand the problems. They are concerned about their children and grandchildren's future. I think seniors want to be part of the solution, and we want to make sure they're a part of it, but not the only solution. They want to contribute to the solution and make sure it's a fair solution.

I think the basic message should be to assure everybody that Social Security is going to be there for the current retirees, that they're not going to lose anything. It's very important that we assure them it's going to continue to exist. We also need to get the message out that Social Security was intended as a supplemental source of income, not the only source of income. We need to encourage people to have IRAs and 401(k)s and move in that direction. And we need to make people aware that the trust fund does not exist. There are no cash reserves.

As we move toward a negative cash flow in Social Security, we have got to address that issue. The trust fund moneys are not there. I think we can address the issue and come up with common sense solutions that's a "win, win, win." It has to be a win for the seniors, a win for our generation, and it has to be a win for the younger generation. It can be by a combination of allowing some direction of private investment of the total amount of Social Security.

I'm glad that as we move toward the balanced budget, we can address the issue now. I'm excited that your Subcommittee is moving in that direction.

Thank you for allowing us to testify today.

[The prepared statement follows:]

Statement of Hon. Dan Miller, a Representative from the State of Florida

Mr. Chairman and members of the Social Security subcommittee, thank you for the opportunity to testify today and share my concerns about the current path of Social Security. As you may know, I represent the Congressional district that has more seniors than any other so the solvency of Social Security, like Medicare, is especially important to me and my constituents. But I am also concerned about the viability of this program not only for today's seniors but for their children and grandchildren.

Congressional Budget Office figures show that entitlement spending accounted for 55 percent of our Fiscal Year 1996 budget. This percentage is expected to rise as Baby Boomers retire and become eligible for both Social Security and Medicare. Without reform, entitlements will eventually consume our entire budget and our deficit and debt will explode. Already, a child born today will pay $187,000 in taxes over his lifetime just for interest on the current debt.

This is why I believe the moral challenge of our time is to balance our budget so that our children can have a brighter, freer and more prosperous future, but to do this, we must have the courage to reform Social Security so that all Americans are secure in their retirement years. Specifically, I believe we should consider reform proposals which allow workers to direct at least a portion of their Social Security tax into a private investment account. This is especially important given the tremendous demographic changes we will witness in the 21st century.

From Baby Boom to Social Security Doom

In 1900, only one in twenty-five Americans was over sixty-five. The vast majority of these people were self-supporting or supported by their families. In 1935, when Social Security was created, forty-five workers were paying into the system for every retiree drawing benefits.

Today 31.2 million Americans are over 65 and the ratio of workers to retirees is about 3 to 1. By 2040, one out of every four or five Americans will be over sixty-five, and the ratio of workers to retirees could be lower than 2 to 1. These numbers are not fictional. They come from the 1996 Social Security Administration Board of Trustees Report. As the Baby Boomers cross into retirement and life expectancy continues to increase, the number of Americans eligible for Social Security increases at a rapid rate. Meanwhile, the ratio of workers paying taxes to support the elderly inversely decreases. So, as good as it has been, Social Security is fundamentally unsustainable in its current form and the American people know it.

Specific Recommendations to Congress as We Move Forward

An Education Campaign

As early as 1995, 47 percent of Americans said that Social Security was not "a good program for today's younger workers." And I am sure you have all heard that more young people today believe they will see a UFO before they will ever receive a Social Security check. Americans—young and old—know there is a problem, but they are not sure why this problem exists or how to solve it. Further, many seniors and Baby Boomers think Social Security is intended to be their sole source of retirement income and that the Trust Fund really exists. It is just such confusion and misinformation that I believe to be the largest obstacle to Social Security reform.

I know this because I conducted many town hall meetings on Medicare during the public debate last year. Medicare, as you may remember, was a very volatile issue. But once I explained to Seniors in my district that Medicare would go broke if we didn't make changes, they began to view reform in a positive light. Seniors care about this great country and they care about their children and grandchildren. They want to be part of the solution, but they need reliable information first.

We need to develop a similar education campaign which dispels the myths and tells the truth about Social Security: 1) SS was intended to be supplemental income 2) There is no money in the Social Security Trust Fund and 3) We can save the system if we make common sense changes. This campaign must clearly explain the reform options and allow for thorough debate and discussion among senior citizens, Baby Boomers and young people. I have come before the committee today to emphasize how important it is to bring these groups together as we begin discussing options for reform.

There will also be legitimate questions raised that must be clearly answered if we are to succeed. For instance, many people are concerned that if Social Security were privatized that a recession or stock market crash could devastate retirement savings. While we cannot predict the future, studies have shown that for investors holding corporate securities over any 20-year period that the best return was 12.6 percent and the worst return was 1 percent. The worst case was still a positive return and ironically just one point shy of the current Social Security rate of return. Since savings would begin at an early age, participants could greatly benefit from the market's long-term financial growth irrespective of the market's short-term ups and downs.

Another concern that has been voiced is that many people don't understand how to manage their money. But my question is "Don't we trust the American people?" Every day Americans make important choices. They choose elected officials, spouses and how to spend their after-tax dollars. Furthermore, any change would be set up like a 401K plan or an IRA. In other words, participants would have some limit to their investment choice—so Americans couldn't invest their retirement savings in a junk bond or high risk venture.

Finally, Americans want proof that reform can work and that it will be advantageous to all Americans. We can provide them with both an international and a domestic example. Chile was one of the first nations to adopt a Social Security system and in 1981 they became the first nation in the world to completely privatize one. They survived this transition and the benefits of privatization are compelling. Chilean retirement benefits have been anywhere from 50 to 70 percent higher under the new system.

More importantly, we have already tried this here in America—and it works. In 1981, employees of Galveston County, Texas, chose by a vote of 78 percent to 22 percent to leave Social Security for a private alternative. In essence, the same amount is contributed from both the employee and employer as in Social Security, but is instead deposited into private investment plans. This change has made a world of difference to county employees of Galveston. First Financial Benefits Inc., which originated and administers the plans, reports that a person retiring today at age 65 with 40 years of deposits and an annual salary of $20,000 would retire with $383,032 in a personal account. This means that a retired $20,000-per-year worker with the personal retirement account would receive $2,740 each month at current interest rates, while Social Security benefits would be closer to $775. And this is the lower end of income, the benefits significantly increase for those with higher salaries.

But if the benefits are so much better, why aren't more Americans opting out of Social Security like the people of Galveston? The reason is that Congress passed a law in 1983 which prohibited the American people from following the Galveston County example. In other words, the American people were forced to participate in a low-yielding retirement program which supposedly funded a Social Security Trust Fund.

BUT IS THERE A SOCIAL SECURITY TRUST FUND?

American workers pay 15.4 percent of their income to provide Social Security for themselves and their families in retirement. But, each American does not have his own special account where his huge payroll tax contribution is stored. Social Security does not invest the majority of the money it collects each year. Instead, 90% of annual payroll tax receipts are paid out as benefits to current social security recipients.

This pay-as-you-go system does not allow for the accumulation of wealth. Social Security's rate of return is 2.9 percent compared to 9.3 percent in the private market. Simplified this means that a 50-year old person has to contribute $1,000 to get $1,900 worth of benefits at age 75. In a private market, that person would only have to invest $206 to get the same benefits. While I am not advocating that the government invest Social Security dollars in the private market, I do believe individuals should have the option for the greatest return on their retirement savings—particularly since this savings is compulsory. The obvious lack of return has been acknowledged by the Social Security Trustees in their report which offers three options for reform.

ADVISORY COUNCIL ON SOCIAL SECURITY—A CRITIQUE OF THE OPTIONS

Option 1: Maintaining Benefits Plan

On January 6, 1997, the 1994–1996 Advisory Council on Social Security issued its report on ways to solve the program's long-range financing problems. Because the Council could not reach a consensus, the report contains three different proposals that are intended to restore long-range solvency to the Social Security system. The first proposal, labeled the "Maintaining Benefits" plan, keeps the program's benefit structure essentially the same by imposing tax increases and minor benefit cuts. To close the remaining financial gap, it recommends trust fund investment in the stock market be considered.

After examining the demographics, let's consider the magnitude of the tax increases necessary to maintain current or slightly reduced benefits in the 21st century. By 2040, the cost of Social Security (without reforms) as a share of worker payroll is expected to rise from today's 11.5 percent to 22 percent. Add Medicare Part A, which currently costs the equivalent of 5.3 percent of payroll and is expected to rise to 8 percent by 2030, and at least 30 percent of every worker's paycheck will go to the federal treasury before we even start to pay for the rest of what government does. Tax increases of this size would devastate the economy and destroy opportunities for young American families.

The taxpayer is already overburdened by the federal government's runaway spending. In fact, Americans are spending more on taxes than food, clothing, shelter and transportation combined. Of 365 days this year, Americans will spend more than half of them effectively laboring for the government. According to Americans for Tax Reform, it was not until July 3 of this year that people finally started working for themselves. This is unacceptable and given the "Maintaining Benefits" option proposed by the Advisory Council this date will continue to fall later with each passing year. For these reasons, I do not believe this first option is true reform—instead, it is reminiscent of other short-sighted, quick fixes applied to Social Security over the years.

Option 2: Individual Account Plan

The second alternative, labeled the "Individual Account" plan, restores financial solvency mostly with reductions in benefits, and in addition imposes mandatory employee contributions to individual savings accounts. This plan too would increase payroll taxes by an estimated 1.6 percent, but is less burdening to the taxpayer than the "Maintaining Benefits" option. The "Individual Account" is also a moderate improvement over the status quo because monies designated for an individual are invested and will have a higher rate of return.

While the individual could allocate among different government-managed index funds, the concern is that these accounts would be held and invested by the government. We do not want that amount of wealth and capital to be controlled by the federal government. This would simply concentrate too much decision making authority and pose massive conflict of interest problems. In my opinion, the "Individual Account" option would not adequately reform Social Security.

Option 3: Personal Security Account Plan

The third option, called the "Personal Security Account" plan, achieves long-range financial balance through a major redesign of the system that gradually replaces a major portion of the Social Security retirement benefit with individual private savings accounts. It would divert 5 percent of the 12.4 percent payroll tax into a private account for each American. The remaining 7.4 percent would pay each beneficiary a flat retirement benefit and provide a safety net. Unlike the Individual Accounts which would be held by the government and annuitized upon retirement, these accounts could be placed with private investment companies and individuals would have broader choice over how the savings are paid out during retirement.

Of the three options offered by the Advisory Council, the "Personal Savings Account" plan offers Americans what they deserve—the opportunity for the highest rate of return on their retirement savings. And, I believe this should be a main component of any future congressional legislation.

HOW SOON IS CONGRESSIONAL ACTION NEEDED?

We need to begin the education campaign today. I encourage each of you over the August recess to begin the dialogue and tell the truth about Social Security. There are many grassroots organizations that have begun this process. We should encourage them and help by participating in the debate. The longer we wait the more expensive and more painful this transition will be. We owe it to our children—the future of our country—to reform Social Security now.

I want to thank the Chairman and the Social Security subcommittee for this opportunity today to share my perspective as a Representative who has seen how providing clear, concise and honest information to Seniors transformed the Medicare debate in my district. It worked with Medicare and we must now communicate the realities of our country's future if Social Security is not reformed.

Mr. BUNNING. Thank you, Dan.

My good friend from Indiana.

STATEMENT OF HON. DAN BURTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. BURTON. I want to thank my good friend, Mr. Bunning, the Chairman for this.

I would just like to ask Dan one question. Aren't there UFOs? [Laughter.]

Mr. MILLER. No.

Mr. BURTON. It has been said that if we tinker with the Social Security system, we're gambling with a lot of people's futures. Conversely, I believe that if we don't do something about the Social Security system, we're not just gambling with their future but we're guaranteeing that they're going to have big problems.

If you look at the statistics, it shows that the Social Security system is going to be insolvent by the year 2029, and over the past 10 years, that date has dropped eight times. It was way above 2029. It's going down every year because, when they figure it actuarially, they see that we're in deeper trouble than we thought we were the year before. So we have to come up with some innovative ideas to deal with this long-term liability.

We're talking about over $5 trillion, five thousand billion or five thousand thousand million in Social Security Trust Fund liabilities, and that doesn't include the national debt. Now, I went down as a Member of the International Operations Committee to Chile—and I would like to submit my whole statement for the record, Mr. Chairman.

Mr. BUNNING. Without objection.

Mr. BURTON. I went down to Chile last year and I talked to them about their social security system. I know that the population is much smaller down there, so it would be a much more difficult problem to implement that up here. But it is something we ought to look at.

That country was in dire jeopardy of complete chaos. They had hyperinflation, and in large part it was caused because of the unfunded liability in social security and they had to print money to pay the bills. So they hired an American college professor to come down there, who had economics expertise, and he came up with a plan that they thought might work. They advertised it on television.

What it involved was the employer and the employee, just like we do here in this country, are taxed, but the money goes into a private investment pension fund. Those who choose to go into it would be able to pick, within certain parameters, what those investments would go to. They couldn't get into speculative stocks or gold stocks or anything like that. But blue chips and things that were on the approved list could be invested in.

They expected that they would get 2 or 3 percent of the population to invest in the first year, if they were lucky. Twenty-five percent went into it in the first year. Now they have 93 percent participation and they have the most burgeoning economy in all of Latin America.

Now, the next question is, how do you deal with the people who are already retired or about to retire that can't get into the new plan? What they did there was they sold long-term bonds, and they paid those off incrementally over the years to take care of the unfunded liability. But the people who are young, who wanted to have a retirement plan, went into the new one. Now 93 percent of them are in it and they're very happy and the economy is really going bananas.

Now, these people are going around with their little cards and going to computers all over the country, and they check on a daily basis to see how much their investment has improved. This was a communist country under Allende. You couldn't get them to go back to communism with a ball bat, because they see what their investments, through free enterprise and free investment, is doing for them.

Now, we face something in this country that is very dire. Are we going to have a bankrupt Social Security system, or hyperinflation, because we're trying to pay bills that we can't possibly pay, and have the young people around here saying there won't be anything left for them when they retire in 60 years, 30 years or 40 years? Because that's what we're facing. We have to come up with an innovative idea to deal with this.

I submit to you that the CATO Institute, the Chilean Government, the professor that worked on this down there, should be consulted by this commission or this Subcommittee, and we should look at that very seriously. I think it will work——

Mr. BUNNING. Congressman Burton, he has already been consulted.

Mr. BURTON. He has? Well, what do you think?

Mr. BUNNING. Well, he, along with all of your ideas and all of the other people we're listening to, will be eventually——

Mr. BURTON. As usual, Mr. Chairman, as a "hall of famer," you're ahead of the pack. [Laughter.]

I just want you to know that I'm very happy that——

Mr. BUNNING. The "Social Security Hall of Fame," of course.

Mr. BURTON. Of course. Maybe a little baseball, too.

Let me just say, Mr. Chairman, that I'm happy that that's the case. I hope that you and your colleagues on the Subcommittee, and the commission, whatever it happens to be, will look favorably upon this kind of an approach. Because I really believe it's the only solution to the problem.

With that, thank you very much.

[The prepared statement follows:]

Statement of Hon. Dan Burton, a Representative in Congress from the State of Indiana

Chairman Bunning: Every American looks forward to the day that they can retire. The New Deal guaranteed that the Federal government would save a portion of every working American's hard earned salary, over their lifetime, for their retirement. We have made a solemn promise to the American people to return their money in the form of a monthly annuity after they retire. Due to unsound policy, we are in jeopardy of breaking our promise to the American people.

The Social Security system in the United States is facing profound financial insolvency. According to the latest report of its Board of Trustees, the Social Security system will be insolvent in the year 2029. Last year their report announced insolvency in 2030, in fact, in the past ten years the insolvency date has been lowered eight times. Very simply, we have already spent the money that we had promised to save for the retirement of our seniors. We have taken their money out of the Social Security Trust Fund, and replaced it with IOU's. Depending on how it is measured, this unfunded liability of the system ranges from $3 trillion to $5 trillion. In addition to these IOU's, the Federal debt currently exceeds $5 Trillion. Mr. Chairman, the American people owe nearly $10 Trillion dollars. Given the current budget agreement, how do we expect to pay $5 trillion back to the Trust Fund? Where is the plan for the repayment of this debt? Even if we could find a way to pay for this debt, the trust fund will still be completely exhausted in 2029.

We could pay back the Trust Fund and continue to fund a Social Security System through a series of conventional reforms that include raising payroll taxes and reducing future benefits. I contend that raising taxes on the young, and slashing the benefits for the retired, is a blatant violation of our promise to the American people.

The American-people want their money back, and rather than allowing the Federal government to save their money for them, they want to save it themselves. Allowing Americans to invest in Personal Security Accounts (PSA's), similar to Individual Retirement Accounts (IRAs) and 401Ks, will allow Americans to see their retirement savings as an asset, not as some dubious Federal promise. These accounts would be fully portable and stay with the employee from one employer to the next. Individuals would be free to invest their money through qualified money management companies in bonds, stocks and other investments. Government control would then be limited to defining the options that could be offered for investments in order to limit riskiest speculation. Even the Social Security Advisory Council has proposed limited privatization. Similar proposals have proven highly successful in Chile and in a number of other countries.

I have witnessed the success of the Chilean system first-hand. Under Chile's PSA system, neither the worker nor the employer pays social security tax to the state. Instead, during their working life they automatically have a percentage of their wages deposited into their own PSA account. Chileans choose from one of the private pension fund administration companies to manage their PSA. A separate government agency provides oversight over this program to prevent theft and fraud.

Workers are free to change from one administrating company to another. This provides competition among the companies to provide a higher return on investment, better services, or lower commissions. This is very similar to the Federal Employee Health Benefits Plan (FEHBP), where people can choose between competing health plans to find the best benefits at the lowest costs.

Each worker is given a PSA passbook so they can watch their savings grow. They receive quarterly statements informing them on how well their investment funds have performed. They use ATM-like machines that permit the workers to calculate the expected value of their future pension based upon their contributions, and the age at which they wish to retire. Conversely, a worker may type in how much money they want to receive when they retire, and at what age, and the computer will tell them how much they will need to contribute to achieve their desired outcome.

Upon retirement, a worker may choose from two general payout options. A retiree may use the capital in their PSA to purchase an annuity from any private life insurance company, or the retiree may leave his funds in the PSA and make programmed withdrawals, subject to limits based on the life expectancy of the retiree and his dependents. If there is money left in the retiree's PSA account upon their death, the remaining funds in their account form a part of his estate.

The Chilean system has a strong safety net for those who have contributed to the system. Retirees who have contributed to the system for at least 20 years, but who's PSA, upon reaching retirement age, is below the legally-defined minimum annuity, receives the minimum annuity from the state once his PSA has been depleted. Those that have not contributed for 20 years are also protected by the safety net. They are able to apply for a welfare-type supplement to the pension that they have saved. The PSA system also includes insurance against premature death and disability. Insurance policies are funded through private insurance companies, and paid through a nominal payment to the company that administers the retirement account.

The Chilean reforms also recognized that the employer's contributions that were being made on behalf of the employees, belonged to the employees. They included these contributions as a part of the employees earnings. By renaming the employer's contribution, the system makes it evident that workers make all contributions to their PSAs out of their wages.

How to make the transition from our current pay-as-you-go Social Security system to a system of PSA accounts is the question most people ask. One thing is clear, we must ensure that:

1. The government guarantees those already receiving a Social Security that their monthly payments would be unaffected by the reforms.

2. All employed people already contributing to the Social Security System should be given the choice of staying in the current system, or moving to the new PSA system. If they decide to switch to the PSA system their contributions to the Social Security System should be recognized in their PSA.

3. All new entrants to the labor force would be required to enter the PSA system. The current pay-as-you-go Social Security System should be closed to new workers because it is unsustainable.

When the PSA system was inaugurated in Chile in 1981, workers had the choice of entering the new system or stying in the old one. One fourth (¼) of those eligible chose the new system, and joined in the first month of operation alone. Today, more than 93 percent of Chilean workers save for their retirement under the new PSA system. These PSAs are the property of each employee, and are the primary source of retirement security for Chileans. These PSA accounts have become the number one asset for Chileans. It is a real tangible asset that, for many Chileans, is worth more that the equity in their homes.

Before the end of this century, several other countries, including many of our neighbors, will have privatized their government-run retirement systems using the Chilean model. This will mean a massive redistribution of power from the state to individuals, enhancing personal freedom for all, promoting economic growth, and securing the retirement of all seniors.

Finally, the Chilean reforms have had a very important political and cultural impact. The new PSA system has given Chileans a personal stake in the economy. Chileans are personally interested in the behavior of the stock market, and the movement of interest rates. They understand that their retirement depends on the well-being of the economy, and their contribution to it. They no longer worry about whether or not their pension check will come when they retire. They know it will, because they have the money in an account with their name on it, and have seen it grow as a result of their efforts.

Americans today, face the same concerns regarding whether or not Social Security will be there for them when they retire. The United States Government has made a promise to the American people to keep their retirement safe, and I for one intend to keep that promise. Mr. Chairman, we need to give the American people their money back. I am confident that they will be able to look after it better than we in Congress ever could.

Thank you for your time today Chairman Bunning.

Mr. BUNNING. I thank the panel.

We will ask the next panel to step forward. Congressmen Lindsey Graham of South Carolina, Mark Neumann of Wisconsin, Mark Sanford of South Carolina, Dennis Kucinich of Ohio, and John Tierney of Massachusetts. We have four out of five.

Mr. Graham, would you please begin.

STATEMENT OF HON. LINDSEY O. GRAHAM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. GRAHAM. Thank you, Mr. Chairman, and thanks for having the hearing. I think it takes a lot of courage to openly talk about this in public. But apparently you're like Dan said, way ahead of the ball game. The details are coming from Mark Neumann and Mark Sanford, and I'm sure from Mr. Kucinich here.

I want to make a comment or two to people who are not here, to the President. I'm sure he's out doing things that he needs to be doing as President. But he has made an effort to try to create a legacy for himself about race. I admire him for doing so. That's something the country needs to talk about. But there are some things we can and cannot do, and we'll do what we can on that issue.

But we certainly can, in both parties, do something about Social Security. What I am here to do is encourage you and others to continue the fight that you've started. The country is dying to be led on this issue. They're way ahead of us. There is no one in my district who doesn't understand that Social Security has a problem. We're the only people in the world, I think, afraid to talk about this.

I would encourage the President to sit down with you and others and try to create a legacy that really will be of benefit to many, many people. That is to come up with a plan to save Social Security, do something about Medicare, and reform the welfare system.

All these are entitlements. But Social Security, as everybody has told you probably ad nauseam, is not going to make it.

My aunt and uncle are 67 and 68 years of age. They had no IRAs. They worked in the cotton mills all of their lives. They live off of Social Security and they have Medicare for their health care. We can't do anything in a reform measure that would jeopardize them because they've got no place to go. We're two or three generations deep with people who did not have the opportunity to save outside of Social Security because the cotton mills in South Carolina didn't have a private pension plan. I'll bet you in Kentucky a lot of employers during the fifties, sixties and seventies did not have private pension plans. So Social Security was it.

To those people we're going to keep our word and we're going to maintain the solvency of this system. But to my cousins who are in those same cotton mills, they have a chance to save. We're going to improve that with the tax bill. They have IRAs. They have 401(k) plans. That's good, but it's not enough. We need to take the involuntary withholding that we're doing today and give them a chance to do what Dan Burton talked about, so that when they're my aunt and uncle's age, they don't have to ask their nephew every time he comes back from Congress "What are you going to do with Social Security and am I in trouble? What are you going to do with my Medicare?"

I can't tell you strongly enough how many senior citizens in my district who are trapped in the Medicare and Social Security system, with no way out, who live in dread of what we do. They're afraid about what we may do. They hope we do something for their grandchildren, but they're worried about themselves.

It's a dilemma that need not exist in this country. We're very smart and we've gone through a lot of problems in our 200-plus year history. This is one time politicians are way behind the people. The people are ahead of us. They want to be led. Let's do some leading. I encourage the President, and anybody from the administration that may be here today, don't worry about the public. The public is with us. They want their grandchildren to have a future, and they want what is due them. We can do both. Let's lead. Let's don't be afraid of the voters.

I love the job, but I don't want the job if I can't talk honestly about why Social Security is going broke. I would like to help President Clinton be a historic figure. The only way he is going to achieve that goal, in my opinion, given the peacetime world, which is good news, is to head directly into the entitlement reform debate and join us, and join you, Mr. Chairman, to fix Social Security before we run out of time.

Thank you very much.

[The prepared statement follows:]

Statement of Hon. Lindsey O. Graham, a Representative in Congress from the State of South Carolina

Mr. Chairman, I appreciate the opportunity to testify on this most important issue. By holding this hearing and inviting your colleagues to bring their suggestions to the table, you have shown great leadership and I commend you for your efforts.

Social Security, by which I mean the Old Age and Survivors Insurance portion of the program, has served the nation and our nation's seniors well for many years. The program was originally designed to offer all Americans what President Franklin

Roosevelt's Administration referred to as a "floor of protection" against destitution in old age. The program worked. The poverty rate among our nation's elderly has dropped significantly.

However, while we have significantly improved the condition of our nation's elderly, the current system has left us with significant demographic difficulties and severe budgetary and economic outcomes.

For young people, actuarial realities indicate that the current system will never provide them with sufficient benefits. In all likelihood, they will pay in far more than they will ever receive. We know that the significant payroll taxes faced by today's workers has hindered economic and job growth.

It is also important to note that those with less than full life expectancies, in particular black Americans, do not receive much from the old age benefits. In 1992, the average age of death for black men in the United States was 55.3 years old, almost ten full years short of receiving full old age benefits.

According to the Social Security Trust Fund trustees, under the current system Social Security tax revenues plus interest on the Trust Funds will be insufficient to pay current benefits by the year 2020. However, much earlier than that, in about 2013, current tax revenues will no longer pay for current beneficiaries. If the system remains as it is and benefits are maintained at current levels, the payroll tax will have to rise from 12.4 percent to 19 percent. A payroll tax increase of this magnitude is economic suicide.

It is time to admit the obvious. Common sense tells us that the current system must be changed.

I believe that the public is ahead of us on this issue. They know that changes must be made. The young people in America today do not believe they will ever see any Social Security benefits. Moreover, America's seniors don't want to bury their children and grandchildren under a mountain of payroll taxes to prop up an untenable system.

We face a generational deficit that must be addressed and must be addressed soon. The longer the Congress waits to take action, the more difficult and divisive the solutions will be.

I do not believe that we can continue a pay-as-you-go publicly-funded retirement program that is totally dependent on the federal government.

Pay-as-you-go systems unlike fully funded plans, provide benefits to the elderly that are tied not strictly to their own lifetime contributions, but mainly to taxes on younger generations of active workers. These systems depend critically on the support ratio—the number of people in the prime labor force participation age groups of 20 to 64 available to support pensions of those aged 65 and over. These support ratios have been falling in the United States. In the U.S., the ratio has declined from 7.1 in 1950 to 4.7 in 1990, and it is expected to drop to 3.3 in the year 2020. This is a demographic nuclear weapon aimed right at our federal budget and our nation's economy. And the fuse gets shorter every day.

What should we do? We should continue some of the steps the Congress has taken over the past two and a half years: raising the earnings limitation, simplifying pension regulations to allow more companies to offer simple pension plans, working to expand individual retirement accounts, balancing the budget and providing tax relief to help Americans better save for their retirement.

Additionally, all serious proposals to alter the Old Age and Survivors Insurance program must be considered in order to protect benefits for seniors, our federal budget from disastrous deficits, and future generations from devastating taxes. Wealth Testing. Privatization. Private accounts with compulsory savings. Private sector investments. All of these should be given an open hearing and receive the thoughtful scrutiny that they deserve.

I would also suggest that the Congress approve a demonstration program similar to the one implemented last year for Medical Savings Accounts. A certain number of individuals would be allowed to partially opt out of future Social Security old age benefits in exchange for a lower payroll tax.

Lastly, we must work to ensure that the American people receive better, more accurate information about the current state of the Social Security system and what their likely return on the taxes will be.

However, we need to be clear on one point. While the Congress works to protect the future of America's young workers and families, we must keep the promises made to our nation's senior citizens.

That said, time is short.

It is time for us to lead and to act.

As a nation we have overcome problems and challenges in our past and we will overcome them in our future. We have faced great challenges with determination, will, persistence and a calling to do what is right for future generations.

Again I thank the chairman for his leadership, and I look forward to working with him and other members of Congress to protect our nation's elderly, economy and posterity.

Mr. BUNNING. Thank you, Lindsey.

Mark Neumann, would you please begin.

STATEMENT OF HON. MARK W. NEUMANN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. NEUMANN. Thank you, Mr. Chairman. I thank you for holding this hearing, too.

As you well know, I am very, very concerned with the issue of Social Security, and I am very concerned in particular when we reach the year 2012 and there's not enough money coming in, how we're going to repay the IOUs that are currently in the trust fund.

Social Security, as you know, is an extremely important program to my parents, to people of my generation, and to the younger generation. The problem that we have is, when we talk to young people, they don't believe Social Security is going to be there for them when they retire. As a result, they don't understand why we're taking money out of their paychecks and putting it into the Social Security system.

One of the things that bothers me most, as we look at how people are addressing the problems that face the Social Security system, is most people start talking about the problems developing in the year 2029. In fact, the shortfall starts to occur in the year 2012, because the money that's in the trust fund, the nonnegotiable Treasury bonds, there is currently no plan on the table that would allow us to repay those nonnegotiable Treasury bonds.

That's why we are about to introduce a bill, the National Debt Repayment Act, which would establish a stream of revenue, or perhaps put real assets in the trust fund, or whatever this Subcommittee deems the most appropriate way to do it. But one way or another, it's going to establish a means that, when we reach the year 2012, we're not going to have to go out to our senior citizens and say there's no money here for Social Security.

I think, as I look at the situation, and as we study what's happening in Social Security today, what bothers me the most, and what bothers the senior citizens that I talk to, is that the government is taking money out of the paychecks of virtually every American. My 14-year-old son earned $900 mowing lawns last year, and the Social Security system took $128 from my 14 year old. They're taking money out of virtually every paycheck in America today, and they're taking more money out of those paychecks than what they're paying back out to our seniors in benefits.

That extra money is supposed to be set aside in a savings account, but it goes into the general fund. The government spends everything in the general fund so, of course, there is no money left in the end. It then issues a nonnegotiable Treasury bond that doesn't even show up when we report our deficits of this country. That's wrong and that's a practice that needs to be stopped.

We've had a lot of discussions on how we go about fixing that problem, and I'm not sure I'm smart enough to come up with the right answer. But I'm sure that as we start looking at this problem, and start thinking about the year 2012, something needs to be done because that's not very far away.

If we do not address the problem now, we will shortly find ourselves in a situation where we have basically three choices. One choice is to tell seniors they're not going to get the Social Security benefits they've been promised. And from what I've seen of the folks in Washington, I don't think that's very realistic.

The second choice is to go out and raise taxes on all the working people, and take more money out of their paychecks. And the third choice is to go to the employers and demand more money from the employers as well.

There are some articles that I brought with me, and I would like to request that my entire statement be submitted for the record.

Mr. BUNNING. Without objection, it will be.

Mr. NEUMANN. Thank you.

There are a couple of articles to which I would like to call to the Subcommittee's attention. The Social Security Trust Fund is all part of the $5.3 trillion debt that faces our Nation today. When we start thinking about the IOUs in the trust fund, if you like, or any of those other debts, T-bills or whatever you want to call them, that make up this $5.3 trillion debt, I would just like to call attention to this Subcommittee to the Washington Post article of June 24, 1997. It reported on a 192-point drop in the stock market on June 23rd. The reason for the drop in the stock market is the Japanese Prime Minister announced that he was going to cash in United States T-bills if Japan didn't get a more desirable exchange rate on the yen to the dollar. He issued the first threat that I can remember to cash in T-bills to upset the financial stability of our Nation if he didn't get his way on a political issue or on a different issue.

That is the threat that is staring us in the face when we look at the Social Security Trust Fund, and that is the threat that stares us in the face with this $5.3 trillion debt.

Here is another article on the same issue. Investors Business Daily, July 7, 1997, analysts are forecasting a surge in the amount of U.S. debt held by China potentially for the same reason, to in the future hold this government hostage to whatever it is that on that particular week or that particular month they want.

It brings us back to the fact that we can't afford, as a Nation, to have a $5.3 trillion debt staring us in the face, part of which is the Social Security Trust Fund.

I might have other articles here that I would very much appreciate taking a look at, where it does define the actual dollars in the trust fund as IOUs.

Again, I very much appreciate the effort that you're putting into this. It's a very serious problem facing the country and I look forward to working with you on the solutions.

Thank you.

[The prepared statement follows:]

Statement of Hon. Mark W. Neumann, a Representative in Congress from the State of Wisconsin

Mr. Chairman, I want to thank you for this opportunity to speak here today about the future of the Social Security system for our seniors and for the next generation.

Social Security is an extremely important program for our seniors. It is a program they have come to rely on for their retirement benefits because they have paid into the system for many years. America's seniors have placed their faith and trust in the federal government to watch over that money for them so that it will be available when they settle down to enjoy their retirement years.

Social Security is also an important program for folks in my generation who also have been paying into the system now for many years.

Unfortunately, people in my generation and my kids' generation simply don't have the confidence in the Social Security system. They do not believe that Social Security will be there for them when they decide to retire and enjoy their benefits.

In the short time that I have had the privilege of being a Member of this House, I have spent a considerable amount of my time looking at the Social Security system and how we can save it and keep it solvent for years to come.

Mr. Chairman, as you well know, in 2012, Social Security will begin to pay out more in benefits than it collects in taxes. We simply can not wait for this day to arrive, we must work now to extend the life of the Social Security Trust Funds.

How do we accomplish this goal, Mr. Chairman?

One solution which I would like to advance here today is the idea of paying off the national debt, because the national debt has a direct relation to Social Security.

The national debt—which will severely hamper the ability of our children to buy their first home, start their own family or save for their retirements—now stands at $5.4 trillion. This is the amount of money Washington has borrowed over the years (plus interest which has accumulated) and spent on many programs which, in my humble opinion, were wasteful and frivolous. This debt is a pile of IOUs—claims against the government—that real people and real institutions hold and demand repayment on. Many of these IOUs are now in the Social Security Trust Fund.

The question becomes, how do we get to a point where we can repay these notes when they come due? The answer to that question is simple. We must take full advantage of this era of prosperity to not only balance the budget, but to run large budget surpluses and use most of the surplus to pay off the national debt.

I will soon introduce legislation to pay off the national debt and begin restoring the Social Security Trust Fund. My bill simply stipulates that once we attain a balanced budget, we cap the growth of federal spending at a rate one percentage point less than the rate of revenue growth. That creates a surplus which would then be divided by allocating two-thirds to pay off the debt and one third to provide additional tax relief for more Americans.

A report in the Washington Post yesterday draws attention to the fact that we could very well reach our goal of a balanced budget by next year if economic growth continues to grow at current levels and I just want to mention that to underscore the fact that the issue of paying off the national debt is something we will have to address sooner, rather than later.

Further, the more debt that this country accumulates, the more danger it poses to Social Security and the nation as a whole. I want to bring the Committee's attention to two recent reports about the debt which is being held, and possibly accumulated, by foreign investors.

First, the Washington Post (June 24, 1997), reported on a 192 point drop in the stock market on June 23rd of this year, due to public remarks by the Japanese Prime Minister (Ryutaro Hashimoto) who threatened to sell large amounts of U.S. Treasury bills if U.S./Japan currency exchange rates did not become more favorable for Japan.

In a more recent report in Investors Business Daily (July 7, 1997), analysts are forecasting a surge in the amount of U.S. debt held by China to potentially gain political or economic influence over U.S. policy.

The IOUs, which are the debt, are financed in large part by foreign investors (estimated at 22 percent) and I think it is not only an embarrassment to this country, but it is dangerous for us and for our senior citizens.

I have referred a great deal to the IOUs which Washington owes and those that are in the Trust Fund. I just want to expand on that point briefly.

Currently, the Trust Fund takes in more in taxes than it pays out in benefits. This Social Security surplus, however, is then spent by Washington on other government programs. The government "borrows" the money from the Social Security Trust Fund, writing an IOU in the form of a non-negotiable Treasury bill. These non-negotiable bills are not real tangible assets and have no value in the real world: they are nothing more than IOUs—promises by the government to repay the money "borrowed" from the Trust Fund. The Trust Funds must contain real assets, not IOUs.

And others who follow this issue have realized the significance of keeping IOUs in the Trust Funds as well.

USA Today wrote, "Social Security surpluses now are spent immediately on other federal programs. The Trust Fund's assets are nothing but a pile of IOU's....(The) Trust Fund is a fraud." (5/30/96 emphasis added)

CNN correspondent Jim Angle reported, "Social Security gets your payroll taxes then turns around and pays most of it out in benefits. The rest is supposed to go into the Social Security Trust Fund and earn interest. Instead, the government has been pocketing the money, spending it on other government programs and giving the trust fund IOU's." (October 3, 1996)

David Koitz of the Library of Congress wrote in a special report, "When the Government posts a security to one of its own accounts, it hasn't purchased anything or established a claim against some other person or entity. It is simply creating an IOU from one of its account to another. Hence, the building up of Federal securities in a Federal trust fund—like that of social security—is not a means in and of itself for the Government to accumulate assets. It certainly has established claims against the Government for the social security system, but the social security system is part of the Government. Those claims are not resources the Government has at its disposal to pay future social security benefits." (emphasis added) (CRS Report #93–643 EPW, December 30, 1993)

I think the public understands the significance of having IOUs in the Trust Funds and I think it is time that this Congress looks at alternative forms of keeping our seniors money so that it will be available for them and it will be safe from the reaches of big government.

With that I will wrap it up, Mr. Chairman, and again I want to thank you and the Committee for the opportunity to share my views with you today.

Mr. BUNNING. Thanks, Mark.

Dennis, go right ahead.

STATEMENT OF HON. DENNIS J. KUCINICH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. KUCINICH. Thank you very much, Mr. Chairman, and Mrs. Kennelly.

I want to thank you for the opportunity to speak here today. Social Security is a guarantor of economic rights for the aged, for widows, for victims of circumstance, and for the disabled. Social Security is one of American Government's greatest achievements and success stories.

Those who have always been opposed to Social Security or see financial advantage in its radical undoing purposely equate the depletion of the trust fund with insolvency. They exaggerate Social Security's actuarial imbalance and call it a crisis.

First of all, I submit, Mr. Chairman, there is no crisis. Social Security tax income exceeds Social Security benefits until the year 2012. After that date, shortfalls are made up by drawing upon the accumulated surplus in the trust fund and the interest it earns. With current tax and benefit rates remaining constant, Social Security will pay 100 percent of benefits of future recipients until 2029, without any change whatsoever.

Once the trust fund is depleted in 2029, Social Security's annual tax income is sufficient to pay 76 percent of the benefits of future recipients. The system largely works.

The magnitude of the problem, therefore, is making up a projected 24-percent shortfall, and we have 33 years in which to phase in a solution. There is no crisis.

Those who have always been opposed to Social Security or see financial advantage in its radical undoing are calling for privatization. I view Social Security privatization as turning over this program and accumulated surplus to profiteers and turning back on our commitment to intergenerational security, economic freedom and fairness.

Privatization would dismantle a hugely popular and successful government program, and with its accumulated surplus of over $570 billion in the trust fund—we do have a trust fund surplus—and over $500 billion in annual revenues, would deliver a hugely profitable kitty for Wall Street investors to charge fees on. A standard 5.75-percent management fee on the annual revenues would generate $28.75 billion in new compensation annually for Wall Street brokerage houses, at the expense of the humble occupants, trusting occupants, of main street.

Privatizing Social Security is a radical, extreme measure. For every winner in the stock market, there will be a loser. Privatizing Social Security guarantees, by a law of averages, that there will be retirees who grow poor because their private investments fail. That new reality would undermine one of the wonders of Social Security, that it has saved millions of seniors from the despair of poverty because it guarantees benefits.

The guarantees that Social Security provides have enabled seniors to have the lowest rate of poverty in the population. By privatizing the trust fund, we would take the enormous risk of pushing many seniors into poverty.

The plans of privatizers replace Social Security's guarantee with a Wall Street gamble. And the big secret of privatization is that the two most radical plans require a huge tax increase. Both the Gramlich plan, individual accounts, and the Weaver plan, personal security accounts, require tax increases to make up for the shortfall they create by diverting FICA taxes away from paying benefits. The Weaver plan's transition tax lasts for 72 years and still requires further Federal borrowing.

Social Security once experienced a great crisis. That was in 1983, when Social Security was within months of insolvency. At that time, and only because the crisis was real, there was bipartisan agreement that Congress had to take action, and that every sector of the population would have to contribute toward the solution. There was no talk of privatization. At that time, President Reagan and Speaker O'Neill, Senator Robert Dole and Senator Moynihan all concurred.

But today we have 30 years before anything approaching a genuine crisis is upon us. It serves the interest of the privatizers to perpetuate hysteria about Social Security. But a problem that could develop in 30 years is not a crisis. It is a projection.

Let's take time to craft real solutions to real problems. We have the time. We needn't radically dismantle Social Security to do it.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. Dennis J. Kucinich, a Representative in Congress from the State of Ohio

I.

I want to thank you for the opportunity to speak here today. Throughout my political career I have been dedicated to protecting the rights of working and middle income people. Social Security is a guarantor of economic rights for the aged, for widows, for victims of circumstance, and for the disabled. Social Security is one of American government's greatest achievements and success stories.

Those who have either always been opposed to Social Security or see financial advantage in its radical undoing purposely equate the depletion of the trust fund with insolvency. They exaggerate Social Security's actuarial imbalance and call it a crisis. First of all, there is no crisis. Social Security tax income exceeds Social Security benefits until 2012. After that date, shortfalls are made up by drawing upon the accumulated surplus in the trust fund and the interest it earns. With current tax and benefit rates remaining constant, Social Security will pay 100 percent of the benefits of future recipients until 2029 WITHOUT ANY CHANGE WHATSOEVER.

Once the trust fund is depleted in 2029, Social Security's annual tax income is sufficient to pay 76% of the benefits of future recipients. The system largely works [cite: "Long Range, Table 2, CRS publications, Tax income in 2030/Outgo in 2030 = 2301.4/3004.7 = 76%]

The magnitude of the problem, therefore, is making up a projected 24 percent shortfall, and we have 33 years in which to phase in a solution. Expressed another way, the actuarial imbalance as calculated today is only a little over 2 percentage points. [The actuarial balance, of course, is the amount by which Social Security revenue would have to increase in order to meet current benefit levels for the next 75 years.] *There is no crisis.*

II.

Social Security is a popular, efficient and effective program which deserves our care and support.

1. Social Security is the safety net that saves many retirees from poverty and it is the foundation of the entire retirement system.

In 1959, the Census Bureau estimated that 35% of elderly Americans were poor. During the 1960's, elderly Americans had twice the poverty rate of all other Americans. By 1994, in large part because of changes in Social Security, the poverty rate among senior citizens was *lower than the rate of other adults.*

Social Security plays a crucial role in providing income for most senior citizens. Six out of 10 seniors get more than half their total retirement income from Social Security.

2. Social Security is a highly efficient, uncomplicated program without loopholes and complex administrative requirements.

The program runs smoothly, regardless of political or economic events. Despite wars, economic recessions and recent government shutdowns, Social Security checks have always reached recipients in a timely fashion and in their full amount. Unlike other entitlement, such as Medicaid and TANF, Social Security does not require state and local governments to participate in program financing or administration.

Administrative costs for Social Security are about 1 percent of benefits. Comparatively, according to the American Council of Life Insurance, administrative costs for private insurance are between 12 and 14 percent of annual benefit amounts.

3. Social Security has always paid its own way

Social Security has always paid its own way as a program by collecting taxes earmarked solely for the payment of benefits. Furthermore, From its creation in 1935 until today, the Social Security system has operated in the black. Social Security is not responsible for any growth in the federal deficit. Social Security has enjoyed broad public support since its creation and recent studies show that 90% of Americans favor the continuation of Social Security.

4. Social Security is progressive.

Americans who earned more during their working years receive higher benefits, but the portion of each worker's earnings that Social Security will replace rises as the worker's income falls, a factor directly responsible for raising senior citizens largely out of poverty, relative to the rest of the population.

III.

Those who have either always been opposed to Social Security or see financial advantage in its radical undoing are calling for privatization. I view Social Security privatization as turning over this program and accumulated surplus to profiteers and turning back on our commitment to intergenerational security, economic freedom and fairness.

Privatization will dismantle a hugely popular and successful government program, and, with its current accumulated surplus of over $570 billion in the trust fund, would deliver a hugely profitable kitty for Wall Street investors to charge fees on. A 5.75 percent management fee on the trust fund would generate $32.8 billion in new compensation for Wall Street brokerage houses.

Privatizing Social Security is a radical, extreme measure. Privatizing Social Security guarantees by the law of averages that there will be retirees who go poor because their private investments fail. For every winner in the stock market there will be a loser. That new reality would undermine one of the wonders of Social Security—that it has saved millions of seniors from the despair of poverty because it guarantees benefits. The guarantees that Social Security provides have enabled seniors to have the lowest rate of poverty in the population. By privatizing the trust fund we take the enormous risk of pushing many seniors into poverty.

The plans of privatizers replace Social Security's guarantee with a Wall Street gamble.

And the big secret of privatization is that every plan requires a huge tax increase. Both the Gramlich plan (Individual Accounts) and the Weaver plan (Personal Security Accounts) require tax increases to make up for the shortfall they create by diverting FICA taxes away from paying benefits. The Weaver plan's "transition" tax lasts for 72 years and still requires further Federal borrowing!

IV.

A little historical perspective is required. Social Security once experienced a genuine crisis. That was in 1983, when Social Security was within months of insolvency. At that time, and only because the crisis was real, there was bipartisan agreement that Congress had to take action, and that every sector of the population would have to contribute towards the solution. At that time, President Reagan and Speaker O'Neill, Senate Majority Leader Robert Dole and Senator Moynihan all concurred.

But today, we have 30 years before anything approaching a genuine crisis is upon us.

It serves the interest of the privatizers to perpetuate hysteria about Social Security. But a problem that could develop in 30 years is not a crisis. It is a projection.

Let us take the time to craft real solutions to real problems. We have the time. We needn't radically dismantle Social Security to do it.

V.

Social Security has sustained economic downturns, wars as well as a widening gap between the wealthy and the rest of us.

Privatizing Social Security replaces a guarantee of benefits and economic freedom with a Wall Street gamble.

I submit that the people of this nation did not elect us to gamble with their lives, but rather to protect one of the few guarantees Americans have in life, as little as that may be.

Thank you.

Mr. BUNNING. Thank you, Dennis.

Mark, go right ahead.

STATEMENT OF HON. MARSHALL "MARK" SANFORD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. SANFORD. Thank you, Mr. Chairman, and thank you, Mrs. Kennelly, for letting me be with you.

I would say first off, though, that I couldn't disagree more with Dennis. We don't see eye to eye on this one, in that I think we do have a crisis. The Social Security Administration's own numbers show that a black male in America, who is unmarried, is getting a negative 6-percent rate of return on his Social Security investment, or for that matter, anybody born after 1948 is getting a negative rate of return on their Social Security "investment."

But leaving that aside, I would just like to touch on one thing, and that is the politics of Social Security. I would take you back to the Saturday before the elections in November. On that Saturday, José Piñera, who had been the Labor Minister in Chile at the time that they changed their system, was in my district to attend meetings with us. We started up in Myrtle Beach and we worked our way down the coast and finished in Charleston, holding a number of Social Security town meetings.

We were in a place called the Canterbury House, which is a senior citizens home, and there were a couple hundred people there. Two agitators stood up, trying to blow holes into the idea of change in Social Security. An 80-year-old woman, gray haired that she was, stands up before I could respond or before José Piñera could respond, and looks at the fellows and says, "Look, if you've got something meaningful to say, say it. If not, sit down and shut up."

Now, that was an 80 year old woman that said this. José and I looked at each other just flabbergasted. I think it gives us a very strong indication, as Lindsey Graham had suggested, of where the politics in Social Security are today.

I know for a long time it's been considered the "third rail" of politics, and I know that maybe back in 1977 or back in 1983 possibly it was. But I think the politics have changed considerably.

So I would put myself in the camp of "privatizers," if you want to call it that. I think we would have to define privatization. If it's the laissez faire style of privatization, I don't believe in that. I believe in a sustained public/private partnership, where it is still a mandatory payroll tax deduction. It is not money that you can get your hands on until after you retire. There is SEC-like oversight, so that you can't have a financial advisor take advantage of those who would invest some money. You have management expertise. You've got capital adequacy requirements. You've got a number of different safeguards. But within those safeguards, I think privatization has been demonstrated around the world to work, to work very, very well.

In essence, you shift from a system wherein you send your money to Washington and then you hope it comes back 30 or 40 years later, to a system wherein your money goes into your own private savings accounts. You get a monthly statement on it, and you know to the penny how much money is in there. People in my district have been remarkably receptive to that idea.

As you might know, the World Bank did a study looking at this idea, and what they found was that, for all developing nations and developed nations, that this was a timely idea. As well, you might know of a poll where they asked young people, "Do you think you'll get the full value of Social Security investment?" To make a long story short, by a 2 to 1 margin, they were more likely to believe in UFOs than to believe they would get the full value of their Social Security.

I know from firsthand experience in our district, where we have had a couple hundred neighborhood office hours, a couple hundred townhall meetings, numerous op-ed pieces, radio shows and what-not, all on this issue of privatization, that it proved not to be the "third rail" of politics. There was a natural constituency of young people, and to people's surprise, there was also a natural constituency of older folks, because they care about their grandkids. Their grandkids are talking to them about this subject.

Then there are a number of surprise entrants, if you want to call it that, who you wouldn't think would be supporters of the idea of changing Social Security. For instance, 3 weeks ago we had a Social Security meeting in the district with a number of national experts, and the National Association for the Advancement of Colored People, NAACP, chapters in the Charleston area were cohosts in this event. A lot of people said that doesn't make sense to me. But again, if you look at the actuarial tables for black males, for instance, and you can see very compellingly why they would be cohosting this type of event.

It's an idea that I think is supported from the left and right. Any time you have Sam Beard, who comes from the opposite political philosophy of my own, behind an idea like this, I think there's something to it. Most of all, I would stress that this is an idea whose political time has come.

Mr. Chairman, we were both in a meeting the other morning and the head of Americans For Tax Reform was talking about the cost of waiting to reform Social Security. That would just be the last thought I would leave with you. They handed out this sheet with different folks——

Mr. BUNNING. Mark, would you like to enter that into the record?

Mr. SANFORD. Yeah, if I could. I would appreciate it.

Just the cost of waiting, most of all the cost would be the biggest for my three kids, 5, 3, and 1.

Anyway, thank you. I yield back.

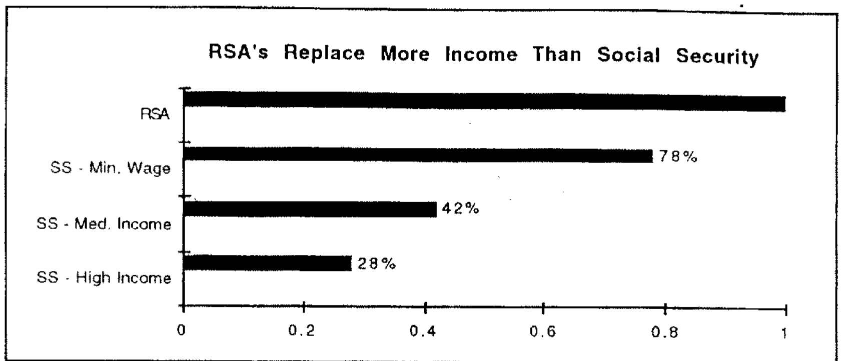
[The prepared statement and attachment follow:]

Statement of Hon. Marshall "Mark" Sanford, a Representative in Congress from the State of South Carolina

THE PLAN

- All individuals would maintain a Retirement Security Account (RSA), which is an IRA-like savings plan administered by a custodian.
- An amount equal to 6% of income is automatically deducted from each paycheck. It is matched by the employer for a total contribution of 12%. (Self-employed individuals contribute 12%.) Of that total, 8% goes into the individual's RSA. The remaining 4% goes to the government to help pay for benefits due under the current Social Security system.
- Individuals may also contribute any amount above the required minimum. Married couples with a non-working spouse are encouraged to also contribute to that spouse's account.
- RSA's must be invested in a mutual fund-type portfolio until enough is accumulated to pay for an annuity that would provide the equivalent of a 1996 minimum wage level income ($8500 annually). Amounts above that could be invested in any type of asset. Custodians would be regulated by the SEC based on capital adequacy and managerial expertise. Fees would be clearly disclosed up front, and accounts would pay an annual premium for insurance (see below).
- Investment principal up to the amount needed for a minimum wage-level annuity would be insured against loss by the Securities and Exchange Commission or a similar existing government agency. Premiums, collected by the custodian, will be based on investment risk. Principal amounts above that level, and all investment earnings, are uninsured.
- Upon retirement, an individual could choose to purchase a lifetime annuity, to live off of the interest, or to withdraw portions of the principal. Withdrawals will be taxed at the ordinary income tax rate.

• Any amount remaining after the retiree's death becomes part of their estate and could be willed to survivors or charities.
• At all income levels, RSA provides higher retirement benefits than the current Social Security:



Source: Rep. Mark Sanford and Social Security Administration data. RSA data assumes a 6% real annual return on investments.

Changes to the Current System

• RSA adopts the proposed Kerrey-Simpson reforms to the current system. These include raising the retirement age to 70 by the year 2029, and early retirement age to 65 by 2017, and several other minor changes that lower the cost of Social Security.
• COLA increases will be capped at 0.5% below actual inflation increases to approximate a re-estimate of the Consumer Price Index.
• Disability benefits do not change. A separate disability trust fund is created and funded by a dedicated payroll tax. RSA also does not affect Medicare.

The Transition

• The current system would end on 12/31/99. People receiving Social Security retirement benefits continue to receive their full benefits for life, and cannot move to RSA.
• People 35 and above on 12/31/99, and who are not receiving benefits, may either remain in the current Social Security system or move to RSA. Those who remain continue to pay Social Security taxes at the prevailing level. These taxes go into general revenue.

Upon retiring, those who join RSA will receive monthly pension payments equal to the proportion of Social Security benefits they have earned through 1/1/2000 in addition to what they have saved under TIA.

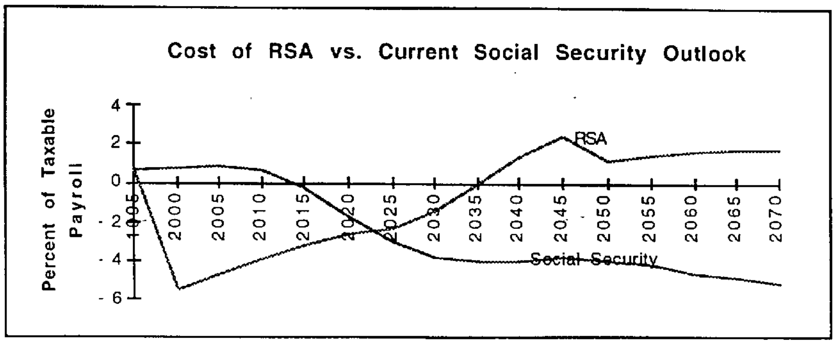
• People below the age of 35 must move to RSA. Upon retirement, they will also receive monthly payments equal to the proportion of Social Security benefits that they have earned through 1/1/2000.

• Social Security taxes end on 12/31/99 for everyone who moves to the RSA.

• All future benefits are paid out of general revenue. The trust fund is dissolved.

• A plan to cover additional transition costs will be developed by a bi-partisan commission. Congress could accept or reject the commission's recommendations, but not amend them. Funds could be raised through self-liquidating debt, sales of federal assets, reductions of other federal expenditures, and if absolutely necessary, additional revenue measures.

• After the transition, Social Security is fully funded:



AMERICANS FOR TAX REFORM

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Everything You Ever Needed to Know

about Social Security:

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Brief Intro

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Power To The People

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www.betterreturns?

By now, mutual-fund savvy Americans have figured out that they are losing money in FDR's ancient Social Security regime. Exactly how much becomes evident only when citizens punch up a new free service available from the tax lobby, Americans for Tax Reform. Tap in "www.atr.org," click on the "social security estimator," and enter a few numbers. The benefits engine will calculate the approximate Social Security benefit you can expect when you retire, as well as the pay off you *could get* if your money went to bonds and mutual funds instead. The difference is quite substantial. Today's 18-year-old welder can expect a pension of something like $1,579 a month if Uncle Sam continues to manage his pension; that figure rises to $4,151 if Washington lets him shift to the markets. Each month reform of this sort is delayed clearly reduces that worker's retirement payoff, and does so forever.

Wall Street Journal, March 19, 1997

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AMERICANS FOR TAX REFORM

Does Delay in Reforming Social Security Cost Me Money?

How would you do if the government DIDN'T take your money? See the power of private savings at work

Suppose grandparents gave a child $1,000 at birth. If the child could hold this money in a tax free account, this money would be worth $173,536 as the child reaches age 67.

- **With a gift of only $3,000, modest life savings, grandparents could ensure their grandchild would enjoy a comfortable retirement with a nest egg of over $500,000 even if the child never saved another nickel in his life.**
- Every $3,000 the government takes from a grandparent is another child who won't be a half-millionaire.

An 18-year old high school graduate making $18,000 a year pays $2,754 in payroll tax. If invested at the average rate of return, this money would produce $110,740 at retirement age. Thus, for every month the government takes payroll taxes from this low-wage worker, the worker LOSES $9,228 in potential retirement savings.

A 22-year old college graduate making $25,000 pays $3,825 in payroll tax. If invested at the average rate of return, this money would produce $122,095 at retirement age. Thus again, the taxes a young worker pays in the **first year on the job alone** would fund several years of comfortable retirement if the government did not confiscate these funds. For every month the government collects payroll taxes from this young college graduate, the graduate LOSES $10,175 in potential retirement savings.

A two-income couple both aged 30 making $40,000 a year pays $6,120 in payroll tax. If invested at the average rate of return, this money would produce $105,543. Here the **opportunity cost of one years' taxes at age 30** is an **ertire year of life in a posh retirement community** or swanky golf resort or **four years'** comfortable living in more modest surroundings. For every month the government collects payroll taxes from this couple, the two LOSE $8,795 in retirement savings.

A computer programmer aged 30 making 60,000 a year pays $9,180 in payroll taxes. If invested at the average rate of return, this money would yield $158,314 in savings at retirement age. For every month the government collects payroll tax from this programmer, the programmer LOSES $13,192 in potential retirement savings.

A two-income couple both aged 40 making $60,000 pays $9,180 in payroll taxes. For them, if invested, this money would be worth $79,196 in retirement savings. Every month the government collects payroll taxes from them, they LOSE $6,599 in potential retirement savings.

A two-income couple both aged 50 making $120,000 per year pays $18,360 in payroll taxes. If invested at the average rate of return, these funds would have yielded the couple $67,392 in retirement savings. Every month the government collects payroll taxes from them, they lose $5,661 in potential retirement savings.

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Mr. BUNNING. I thank the panel for their input. I appreciate your participation.

Before I introduce our final panel, there are two other Members who have provided written testimony, Patsy Mink and Tom

Coburn. We would like to allow any statement they submit to be entered into the record.

[The prepared statements and attachments follow:]

Statement of Hon. Tom A. Coburn, M.D., a Representative in Congress from the State of Oklahoma

Mr. Chairman, members of the Committee, I would like to take this opportunity to relay to the Committee my concerns regarding the Social Security Administration's (SSA) use of an automatic recomputation system to determine increases of benefits due to those receiving disability assistance.

As you are all aware, disability benefits are only paid after SSA determines that an individual is unable to engage in substantial gainful activity. After entitlement to disability benefits, posted earnings as a result of employment should trigger a review of the individuals entitlement to disability assistance. In some cases, posted earnings indicate recovery from the disabling condition, which may result in cessation of benefits.

Under current SSA policy, however, posted earnings result in a computerized, automatic readjustment of benefits. By employing the automatic recomputation system for disability cases, increased benefits are payed before SSA personnel have the opportunity to reevaluate a beneficiaries eligibility for benefits. As a result, some beneficiaries are not only receiving checks to which they are not entitled, they are also receiving an increase in benefits to which they are not entitled. I have been informed of four cases in my hometown of Muskogee in which disabled individuals received a total of $89,849 they were not due. In most cases, the individuals have already spent this money before SSA even learns of its mistake. As you are aware, recovering overpayments is difficult, time consuming, and often unsuccessful.

In order to correct this problem a claims representative in the SSA office in Muskogee filed an employee suggestion form recommending that the computer system be programmed to prevent automatic recomputations on disability beneficiaries prior to review by SSA personnel. In other words an increase in posted earnings would automatically signal a continuing disability review (CDR). The Division of Operations Management responded that this was not possible. They explained that an audit conducted by the Inspector General in 1994 determined that SSA was not paying potential under payments to beneficiaries if there was a pending disability review. Since SSA was not processing reviews in a timely fashion and consequently some beneficiaries were not receiving the increases due them in a timely fashion, the requirements were changed to allow automatic recomputation of benefits prior to a review. SSA admits that this system, "may result in some overpayments, but this is the only way of ensuring that beneficiaries entitled to under payments receive them."

While I am well aware of SSA's past difficulties in processing disability reviews in a timely fashion, I hardly think it is appropriate simply to abandon the process in favor of an automated system. In fact, it is questionable whether SSA's current policy is even cost effective. An October 1996 General Accounting Office report stated that:

In Fiscal Year 1996, SSA limited its selection for CDRs to a portion of SSI recipients it consider cost-effective to review. In general, these include recipients for whom medical improvement is either expected or is possible..." (GAO/HEHS–97–17)

SSA estimates that these targeted reviews will result in at least $3 in federal program savings for every $1 spent conducting CDRs. It stands to reason that the one group we should target for disability review, even before those for whom medical improvement is possible, are those who have posted an increase in earnings, which in many cases signals recovery from the disabling condition.

I applaud SSA's attempt to improve its timeliness on completing benefit readjustments as a result of changes in posted income. However, SSA should not attempt to improve timeliness by eliminating the review process. In attempting to solve one problem, SSA is creating an even larger one. In my opinion current policy of automated recomputations indicates a complete lack of regard on the part of SSA to its responsibility to properly manage the Social Security disability system.

While the SSA administration has rejected the suggestion to discontinue automatic recomputations for disability cases, the proposal is not without support. The Director of the Center for Disability for the Dallas Region speaking for both the Dallas and Denver Regions outlined in a memo their concerns with the current system of recomputation and encouraged the administration to consider the suggestion that disability recomputations only be performed after the performance of a disability review. I have attached this memo as well as the original suggestion form and the corresponding responses for your review.

SSA has asserted that it simply does not have the resources to perform these disability reviews in a timely fashion. I would like to point out, however, that last year this Subcommittee uncovered that SSA had authorized 1,800 employees to spend time on union representational activities. A total of 146 individuals were employed as full time union representatives. In 1995 SSA employees spent 413,000 on union business. If SSA is truly understaffed, I would suggest that they begin to fully utilize the employees that are currently on their payroll. As far as I am aware the primary duty of SSA is the administration of the retirement and disability trust funds not the employment of union representatives. I can personally attest to the fact the citizens who utilize the Muskogee Social Security Office would be better served with an additional case manager rather than the full time union representative currently employed there.

I would encourage SSA to reconsider its policy regarding automatic recomputations as well as its policy to pay union representatives out either the Social Security Trust Fund or there appropriated operating expenses. Permitting recomputations only after a disability review will restore some integrity and fiscal sanity to our disability system, by ensuring that only those eligible for disability benefits actually receive those benefits. This seems to be the least we can do to ensure we continue to have the resources necessary to provide assistance to the disabled.

Refer to: S2D6B2:P11

DI-11

Date: January 31, 1997

From: Director, Center for Disability
Dallas Region

Subject: Report on the Disability Earnings Enforcement Alert Workload

To: Ann Corbett

Thank you for the opportunity to review the Office of Program and Integrity Reviews' (OPIR) analysis of the impact from the 1993 increase in the tolerance level from $1000 to $6000 for the disability insurance earnings enforcement alert workload. We agree that the tolerance should revert to $1000 in order to cost effectively detect and prevent a substantial amount of overpayments. In addition, we have the following comments:

- One factor that did not appear to be considered in the projection of additional workyears is the reduction in the overall number of employees that the Agency has experienced in recent years and will continue to experience through 1999. The number of employees available to produce the additional 603 workyears based on the 1993 figures cited in the report has reduced significantly since 1993 and will continue to decrease as we approach the year 2000. We believe that this should be considered in the cost factors; and,

- In Appendix A, the first line of the box titled "$1,000 TOLERANCE" is "Total Cases with Earnings of $3,000 or More". $3,000 should be $1,000 in this statement.

It is apparent that this study and resulting report were undertaken with the ultimate goal of reducing the number of incorrect payments that are being made to disability beneficiaries who are able to engage in substantial gainful activity (SGA) and/or may have medically improved. We would like to take this opportunity to call your attention to a related area:

- As the result of a 1994 audit conducted by the Office of the Inspector General, the Social Security Administration has been required to process Automated Earnings Reappraisal Operation (AERO) increases even if a continuing disability review (CDR) indicator is on the Master Beneficiary Record (MBR) for a disability beneficiary. This procedure increases the amount of the overpayment in those cases that are ultimately ceased due to the ability to perform SGA or have medically improved. Please refer to the attached suggestion, suggestion evaluation report, and fax message for specific examples of the results of this process and the resulting overpayments.

We agree that we should review those records with $1,000 or more in earnings in a year, as proposed OPIR's report. However, at the same time if we are going to process AERO increases prior to investigating the work or conducting the scheduled CDR, the entire process will be counterproductive as the potential overpayments increase and the workyears needed to process the overall workload increase. It would appear that a systems' modification could be developed to delay the AERO until the investigation of the additional earnings has been completed.

We are responding on behalf of both the Dallas and Denver Regions. If you have any questions, please contact Janice Grann, Management and Operations Support, Center for Disability, at (214) 767-4281.

Charles Warner

Attachment

cc: Center for Disability
Denver

Regional Operations Officer
Dallas

Bettie Hulsey
Muskogee, Oklahoma Field Office

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Employee Suggestion Form

INSTRUCTIONS TO SUGGESTER

- Read information below before preparing this form.
- Describe your idea on this form. *Filling in all numbered items.*
- Use additional sheets of paper and include drawings or sketches as necessary.
- Submit this form to your immediate supervisor or Suggestion Coordinator.

SUGGESTION NUMBER: 97M1251

DATE RECEIVED: NOV 0 4 1998

1. NAME OF SUGGESTER *(First, middle initial, last)*	2. POSITION TITLE	3. PAY PLAN/SERIES/GRADE
Bettie L Huilsey	Claims Repre	11-9

4. SOCIAL SECURITY NO.	5. TIMEKEEPER NO.	6. ORGANIZATION *(Agency, Office, Division, etc.)*	
448-30-1541	67680	Social Security Adm	DO 787

7. OFFICE ADDRESS	8. OFFICE PHONE
125 So Main, Muskogee Ok 74401	918 687 2241

9. MAY YOUR NAME BE USED DURING THE PROCESSING OF THIS SUGGESTION? YES ☐ NO ☐

10. TITLE OF SUGGESTION

Disability Automatic Recomputations

11. CURRENT SITUATION *(Briefly describe the present practice, condition, etc., which you believe should be changed)*

Automatic recomputations due to work after onset, are resulting in the benefit amounts being increased for disabled beneficiaries. Recomputations should not be processed until wages after onset have been developed, which could result in disability cessation due to work, and service months during the extended period of eligibility. By not addressing the work issue prior to the automatic recomputation, not only are some disabled beneficiaries receiving benefit checks to which they are not entitled, we are increasing the amount of the monthly benefit check they are not entitled to.

12. IDEA FOR IMPROVEMENT *(State your idea as clearly as possible. Tell how and where it may be used and what it will accomplish)*

The computer system should be programmed to prevent automatic recomputations (AERO6) on disability beneficiaries prior to development of work after onset. Prior to AEROS, trial work months should be developed to determine if beneficiary is still entitled to benefits. By not developing trial work months, possible cessation, termination, and the extended period of eligibility service or non service months, we are not only increasing the amount claimant is receiving each month, but ignoring the fact that the benefit checks might not be payable due to the work issue.

(CONTINUE ON OTHER SIDE)

READ THIS INFORMATION BEFORE PREPARING YOUR SUGGESTION

PRIVACY ACT STATEMENT

The Department of Health and Human Services is authorized to collect the information requested on this form by Title 5 U.S.C. 4501 et seq. Disclosure of the information is voluntary, however, failure to fully complete the form may make it impossible for the Department to process the suggestion. The information provided by you will be used to facilitate the processing of the suggestion. At the discretion of the Department Suggestion Coordinator, your suggestion may be sent to other Federal agencies for an evaluation.

SUGGESTION: A suggestion is a constructive idea which, when implemented, improves Government operations and services. It may be a new idea or a new application of an old idea. It may pertain to any phase of Government operations. It should provide a practical solution to the problem it identifies.

NON-SUGGESTIONS: The following proposals are not considered suggestions and are not processed through the Suggestion Program:

1. Those pertaining to the need for routine maintenance and repair.
2. Those suggesting minor improvements in working conditions that ordinarily can be corrected through normal or customary action.
3. Those which are personal complaints or grievances.

PREPARATION: Better suggestions result from careful preparation. You may ask your supervisor for advice and assistance. He or she will help you develop and perfect your idea for submission. Both the quality and adoption rates of suggestions increase when the supervisor provides assistance and guidance.

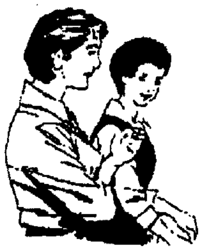
SUBMISSION: You may submit your suggestion to your immediate supervisor or send it to your Suggestion Coordinator. It is good practice to submit it to your supervisor especially if it pertains to anything affecting the operation of his or her unit. If you wish to remain anonymous during the evaluation of the suggestion, indicate your preference in item 9 of this form before submission to your Suggestion Coordinator.

TIME LIMITATION: If you make a suggestion informally and it is adopted, you must submit the suggestion in writing through prescribed channels within six months after it is placed in effect in order to qualify for a cash award under the Suggestion Program.

REJECTED SUGGESTIONS: If your suggestion is rejected, you may request reconsideration within 90 days. Such a request must be based on new information that you provide.

AWARD ENTITLEMENT PERIOD: If, within two years of the date of rejection, your suggestion is adopted or is used without formal adoption, you may be recognized for your idea.

FORM HHS-170 (REV. 12-87)



THE DHHS SUGGESTION PROGRAM:

gives you the opportunity to help your Department improve its operations and provide better service.

enables you to receive personal recognition for your constructive thinking either by an honorary or cash award.

IDEAS SPARK PROGRESS! KEEP YOUR IDEAS COMING!

12. IDEA FOR IMPROVEMENT (Continued)

13. SAVINGS AND/OR OTHER BENEFITS TO THE GOVERNMENT WHICH WILL RESULT FROM YOUR IDEA

Although I am not able to determine amount of savings which would be derived from this change, the development of cessations, and Extended Period of Eligibility service months would enable claims representatives to keep more control over disabled individuals work activity. Retroactive cessations create greater workloads.

Overpayments made to disabled beneficiaries and their families due to dib cessations are usually large and difficult to recover.

I hereby agree that acceptance of a cash award constitutes an agreement that the use of this suggestion by the United States shall not form the basis of a further claim of any nature upon the United States by me, my heirs, and assignees.

14. SIGNATURE Bettie L. Nulan

15. DATE 10/28/90

SUGGESTION ACKNOWLEDGMENT

16. SUBJECT OF SUGGESTION

SUGGESTION NUMBER

Thank you for submitting your suggestion which has been assigned the above number. As soon as it is evaluated and a final decision is made, you will be notified of the action taken. Your interest in improving Government operations is appreciated.

Suggestion Coordinator

Date

17.

TO:

Print your name and the address to which you want this acknowledgment sent. Your office address is preferred.

DETACHED FROM FORM HHS-170 (REV. 12-87)

☆ U.S. GPO: 1988—[illegible]

SUGGESTION EVALUATION REPORT

DEC 0 5 1996

Suggestion Number: 9700256

Suggester's Name: Battie L. Hulsey

Summary of Suggestion:

Benefit recomputations should not be automatically processed until wages earned after disability onset have been developed. Some disabled beneficiaries are receiving benefit increases they are not due, because SSA is not addressing the work issue prior to the AERO.

Decision: Not to adopt.

Explanation of Decision:

The Office of the Inspector General (OIG) conducted an audit on SSA's AERO in 1994. The audit determined that SSA was not paying potential underpayments to beneficiaries if there was a pending continuing disability review (CDR) indicator on the Master Beneficiary Record (MBR). However, due to resource restraints, SSA had not been processing CDRs in a timely manner. Therefore, some beneficiaries were never receiving AERO increases, even after they reached retirement age. As a result, the requirements were changed to allow automation of AERO, even if a CDR indicator is on the MBR. This may result in some overpayments, but this is the only way of ensuring that beneficiaries entitled to underpayments receive them.

We realize that this change may require some future refinement. Therefore, we will review this issue in the future for possible processing alternatives, as part of SSA's ongoing quality review operation.

Although we cannot adopt your suggestion, we appreciate your participation and encourage you to continue to submit ideas for improvement through the Employee Suggestion Program.

James M. Dunn, Program Analyst
Division of Operations Management, OPSOS

Date :

RECEIVED
ARC/MCS
97 JAN 22 PM 2:29

Statement of Hon. Patsy T. Mink, a Representative in Congress from the State of Hawaii

Chairman Bunning, Ranking Member Kennelly, and Members of the Subcommittee: I thank you for the opportunity to testify on an issue of great interest to individuals bearing the burden of spinal cord injury.

Approximately 906 individuals per million Americans suffer from traumatic spinal cord injury, as estimated by the Paralyzed Veterans of America (PVA). These individuals have lost the freedom of mobility and must endure a compromised lifestyle, generally at a point later in life.

Disabled veterans who had been stricken with spinal cord injury while serving our country represent about a fourth of those afflicted with this condition.

Significant risk of spinal cord injury to those older than 60 years of age has been attributed to falls, pedestrian accidents, and medical and surgical complications, according to PVA.

The Social Security Disability program helps those with spinal cord injury by providing benefits to those who qualify. Unfortunately, current law says that these people lose their benefits if they are able to earn more than $500 per month (known as the Substantial Gainful Activity amount, or SGA). The only exception is for individuals who are blind, who are allowed to earn up to $1000 per month before losing benefits.

I recently introduced a bill, H.R. 577, which would increase the SGA for severely spinal cord injured individuals to the same level as that for blind recipients. My bill has been referred to this subcommittee for which I respectfully urge the subcommittee's action.

Earlier in the year, it won PVA's support. I would like to submit a copy of the PVA position paper for the record.

A tremendous financial burden is borne by those with spinal cord injury at an estimated $95,203 for initial hospitalization expenses and an additional $8,208 for at-home modifications, according to PVA. Following recovery and rehabilitation, individuals can expect to pay $7,866 per year on the average for medical services, supplies, and adaptive equipment, with personal and institutional care expenses adding approximately $6,269 per year.

Persons with spinal cord injury cannot be expected to survive solely on their Social Security disability benefit plus maximum monthly earnings of $500. If they can help themselves notwithstanding their disabilities, they should be encouraged to do so. Enactment of my bill H.R. 577 will help.

Again, thank you for the opportunity to testify and for the subcommittee's consideration of my bill H.R. 577.

PVA

PARALYZED VETERANS
OF AMERICA
Chartered by the Congress
of the United States

PVA SUPPORTS EQUITY IN SOCIAL SECURITY EARNINGS LIMITS

The Paralyzed Veterans of America (PVA) supports two measures introduced in the 105th Congress that would address a longstanding distinction in the way eligibility for Social Security disability benefits is determined. Under current law, most persons with disabilities who apply for disability benefits can earn no more than $500 a month (called the Substantial Gainful Activity or SGA level), or $6,000 per year, in order to qualify for the Social Security Disability Insurance (SSDI) program. However, individuals who are blind may earn up to $1,000 a month, or $12,000 a year, and still retain eligibility for SSDI.

Representative Patsy Mink (D-HI) has introduced HR 577, a measure that would afford those with spinal cord injuries (SCI) who receive SSDI the same SGA level as people with blindness. HR 577 would allow persons with SCI to earn up to $1,000 a month and still qualify for SSDI benefits. In a statement released by Representative Mink when she introduced the bill, she said, "these severely disabled beneficiaries should not be discouraged from working to help offset their needs which are at least equivalent to the blind, or even greater." The second measure, HR 464, is sponsored by Representative Phil English (R-PA) and would increase the earnings limit for all persons with disabilities to that accorded persons with blindness.

According to correspondence from the GAO to the Chairman of the Senate Finance Committee in March of last year, "[o]riginally, the Social Security Act did not distinguish between the earnings limitations of DI beneficiaries who are blind and those who have other disabilities." The GAO also found that the costs and rates of unemployment "do not appear to be necessarily higher for the blind than those who have other disabilities." Indeed, a study sponsored by PVA that was cited by the GAO indicates average lifetime costs associated with spinal cord injury range from $500,000 to $1,000,000 and include high medical expenses, costs of personal assistance services and the costs of special transportation. [M. Berkowitz, Ph.D., The Economic Consequences of Traumatic Spinal Cord Injury (1992).] PVA urges Congress to rectify the imbalance in treatment of those with spinal cord and other non-visual disabilities under SSDI earnings limits.

801 Eighteenth Street, N.W., Washington, D.C. 20006
(202) USA-1300 Fax: (202) 785-4452 TDD: 800-795-4327

Mr. BUNNING. We also submit for the record any opening statement that Mrs. Kennelly was prepared to make.

Mrs. KENNELLY. Thank you, Mr. Chairman.

[The opening statement follows:]

Opening Statement of Hon. Barbara B. Kennelly

Today we hold the fifth in the series of hearings on the future of Social Security. These hearings have given us the opportunity to review issues both large and small relating to our national retirement system.

We have heard much debate about whether to restructure the Social Security program. Such restructuring would mean moving from a system based on wages and shared risk to a system which would grow with capital wealth and which would be based on individual risk.

Are Americans ready to take on this additional risk in exchange for a system which is tied to capital growth? Surveys show that—at this stage in the debate—the public has mixed feelings. One survey found that 63 percent of non-retirees thought they might do better investing for themselves. But 85 percent of non-retirees—and, surprisingly, 91 percent of those in the so-called Generation X—wanted to know that Social Security would be there "just in case."

We have a long way to go before we reach a national consensus on this issue. It seems that there are not many people who are yet willing to come down one mountain in order to go up another.

They need more information before they can make a decision. They need to know how not only how a plan would be structured, but how it would be implemented and how it would affect them.

Social Security is only one piece of our national retirement system. Employer pensions and private savings all play a role. It would be a mistake to look at Social Security in insolation and not take into account the impact that changes in Social Security would have on other forms of pensions and savings.

I look forward to hearing from my colleagues in the Congress and from employers and employees about both the big issues of growth and risk and about the smaller issues of administration and implementation. All of these issues will have to be addressed before we can move forward—as we must—to assure a secure retirement for current and future generations.

We have all heard a lot about the survey which found that more people believe in the existence of UFO's than believe in the future of Social Security. It is our responsibility to see that Americans change their views. It is our responsibility to reassure Americans that they can count on a secure retirement.

Most Americans look positively at the prospect of retirement. The view retirement as a time when they can have more freedom, pursue their hobbies and spend more time with their families. But they worry about their financial resources. Contrary to popular belief, young people do not blame their sense of financial insecurity about retirement on older people. They blame it on waste, fraud and abuse in government. A recent survey showed that three-quarters of those surveyed thought they should be saving more.

Today we hold the fifth in a series of hearings on the future of Social Security. We have already heard from think tanks, economists, interest groups, and others about how to strengthen the Social Security program. Today we will hear from employers and employees as well as from Members of Congress about their proposals.

It will take some time, however, before a consensus emerges on this issue.

Mr. BUNNING. The witnesses for our final panel of business and labor representatives are next. Thank you very much for waiting and for your patience during this long day of testimony.

Our witnesses are Bruce MacLaury, chairman of the Subcommittee on Social Security Reform, Committee for Economic Development; Scott Macey, chairman, ERISA Industry Committee; Warren Batts, chairman of the National Association of Manufacturers, and Dr. David Smith, director of public policy, American Federation of Labor, Congress of Industrial Organizations, the AFL–CIO.

Dr. MacLaury, would you please begin your testimony.

STATEMENT OF BRUCE K. MACLAURY, CHAIRMAN, SUBCOMMITTEE ON SOCIAL SECURITY REFORM, COMMITTEE FOR ECONOMIC DEVELOPMENT; AND PRESIDENT EMERITUS, BROOKINGS INSTITUTION

Mr. MACLAURY. Thank you very much, Mr. Chairman, Mrs. Kennelly. It's a pleasure to be here.

I am president emeritus of the Brookings Institution, but I am here today, as you said, as a trustee of the Committee for Economic Development and chair of its subcommittee on a task force that produced a report, which I believe is in your folders, Mr. Chairman. I would like to refer to it and ask you to refer to it, if I may.

[This report can be found on "Committee for Economic Development" website. http://www.ced.org/DOCS/REPORTS/ANNUAL/Ar—intro.htm. This report is being retained in the Committee's files.]

The Committee for Economic Development feels that the process by which we arrived at our recommendations is as important as the recommendations themselves. By that I have two things in mind.

First of all, we established a set of principles which guided our effort, and if I may, I would refer to those on page 36 of that report. The first is maintaining a minimum retirement income; the second is increasing national savings; the third is not derailing efforts to eliminate deficits, and so forth and so on. There are 11 such principles, Mr. Chairman, that informed our judgments as we went along.

It also caused us, as we looked at other plans and suggestions that have been made, to rule out such suggestions as full privatization, "carve-outs," as they are called, taking present contributions and using them to privatize. It also caused us to not recommend raising taxes, not means testing, and not artificially reducing the CPI adjustment.

All of those fell out of the effort to apply certain principles, and I would hope that as your Subcommittee works on a solution to this, what I would call an urgent problem, you will take those principles and apply them yourselves as you best see fit.

Second, with respect to process, we defined the problem as a twofold problem, not one. The first is fiscal solvency—and we've heard a lot of comments about that, and that, as people have correctly said, can only be solved by cutting benefits or raising taxes.

But the second is equally important. It is the political acceptability of whatever solution is found. That means that, whatever is done, Social Security has to remain a good investment. It cannot simply be a negative rate of return on contributions or people will not support it. That's why we saw it as a twofold problem, and if you solve the first, fiscal solvency, by reducing benefits or raising taxes, you have worsened the problem of rate of return on the investment of the contributor. So these two problems have to be reconciled, and that's why the CED came out with a twofold proposal.

That is to say, we would propose to restore the solvency of the existing program by gradually—and I emphasize the word gradually—reducing the benefits for the upper- and middle-income components of the retired population, and second, we would add on a required savings plan.

Now, some people will characterize that as an increase in taxes, but we characterize it as a required savings plan to invest in private sector securities at a higher rate of return to enhance the rate of return on the total invested funds.

So, with that as background as to process, please turn to page 40 of this report, because I think that most effectively lays out the suggestions that we are making.

The first of those suggestions has to do with reducing the benefits, benefits prospectively—and I emphasize the word prospectively—not for current recipients and not for those who are about to retire.

Our first suggestion is that the primary insurance amount, as it is called, or the first year's income after one begins drawing in benefits, be gradually phased down. In the past, all of the adjustments have been to maintain the benefit levels. We think that, over time, those benefit levels for the upper- and middle- incomes have to be reduced. We would increase the normal retirement age from 65 to 70; we would gradually increase the number of years that have to be included from 35 to 40; and we would tax all of the benefits above those contributions of the individual as regular income. And there are a couple of other changes that I would leave to your discretion.

May I ask you now to turn to page 18, where we lay out the add-on component—that is to say, the required thrift plan, if you will. We suggest that there be mandatory contributions of a total of three percent for covered employees, paid half by employers and half by the individual. Those go into private accounts, privately managed, and privately held.

We would also recommend that they not be borrowed against. They are for retirement only and may not be used for college educations. We would argue that they should be annuitized at the end, so that they serve the purpose they were intended for, to cover retirement.

Thank you, Mr. Chairman.

[The prepared statement and attachment follow:]

Statement of Bruce K. MacLaury, Chairman, Subcommittee on Social Security Reform, Committee on Economic Development; and President Emeritus, Brookings Institution

INTRODUCTION

Thank you, Mr. Chairman. My name is Bruce MacLaury. I am President Emeritus of the Brookings Institution. I also serve as Chairman of the Emergency Transitional Education Board for the District of Columbia Public Schools. Today, I am here as a trustee of the Committee for Economic Development, which is the nation's oldest business-led education and policy research organization. I recently chaired a group of CED trustees that produced a policy statement, Fixing Social Security,[1] on which my testimony is based. I will refer to this report from time to time and I ask that it be made part of the official record.

CED and Social Security Reform

The Committee for Economic Development is an independent, nonpartisan organization of approximately 250 national business and education leaders who, for the most part, are CEOs of business firms or universities. CED trustees produce policy statements from the perspective of the national interest on many of the major economic and social issues of our time. For over half a century, CED has crusaded for policies that would lead to higher economic growth and greater economic opportunity. Only last year, CED completed a study and issued a report, Growth With Opportunity, which reasserts this fundamental position.

[1] Committee for Economic Development, Fixing Social Security (1997), NY (61 p).

The need to reform Social Security stands squarely in this tradition. The challenge is not simply to "fix" Social Security and enhance retirement security, but to do so in a way that is consistent with higher economic growth and greater economic opportunity for the benefit of all Americans. My purpose today is to place Social Security reform in this context by first explaining how CED defined and approached the problems of Social Security and then describing the change in direction we recommend.

WHAT IS THE PROBLEM?

What is the project on Social Security is the second of a two-part effort to focus attention on the economic security of our aging population, and its relation to our nation's number one long-term economic problem—low national saving, investment, and growth. Chart 1, which is Figure 13 in Fixing Social Security, illustrates this problem. CED's Social Security statement, issued last February, followed a statement issued two years earlier on problems with private retirement saving in this country, entitled Who Will Pay for Your Retirement? The Looming Crisis. That statement called attention to the significant regulatory disincentives for retirement saving in the current private pension system. Fixing Social Security focuses primarily on the public side of the retirement saving problem.

In its deliberations, CED concluded Social Security faces two fundamental problems: Social Security is not only out of fiscal balance, it is also out of political balance owing to declining support among younger workers, who correctly perceive Social Security as a "bad deal" for them. Consequently, failure to address both imbalances would doom any serious reform effort.

In the course of our study and deliberations about the problems confronting Social Security, we found no magic bullet. We did, however, develop a proposal that will address both of these problems. CED does not have any easy fixes, such as privatization schemes that often skirt the question of transition costs. Quite the contrary, we believe that fixing Social Security will involve some sacrifice. But failure to address the fiscal and political imbalance problems head-on, and soon, will necessarily make reform far more costly, painful, and politically difficult later, when the need to reform takes on crisis proportions.

CED'S SOCIAL SECURITY REFORM CRITERIA

CED trustees first defined a set of criteria against which reform options should be evaluated. These criteria also helped us identify realistic reforms and reject unfeasible ones. om the onset that it is impossible to fully satisfy all criteria simultaneously.

Fundamentally, CED believes that Social Security must be fiscally sound with an adequate safety net for all participants, but with increased funding of future benefits so as to reduce intergenerational inequity. Specific reform criteria, taken from our report (p. 36) are:

- Social security should provide a minimum retirement income, that is, a safety net, for all workers and their families.
- A fundamental objective of Social Security reform is to increase national saving, so that the burden of supporting rising numbers of elderly is made less onerous by more rapid capital accumulation and economic growth.
- Social security reform should not derail the critical economic objective of eliminating deficits in the federal budget.
- The Social Security benefit structure should retain an element of income redistribution, whereby the ratio of benefits to contributions is higher for lower-income workers.
- Participation in the Social Security benefit system by workers should be universal because the burden of supporting the redistribution and insurance elements of Social Security should be shared as broadly as possible.
- Reform measures should be administratively feasible, should not raise administrative costs significantly, and every effort should be made to minimize management fees arising from investments in private assets.
- Social Security reform should strive for greater equity between generations and for better returns on contributions than the present system will provide for future retirees.
- It should also seek greater equity among current participants, particularly between workers with nonworking spouses and other retirees.
- Reform measures should minimize disincentives for labor force participation by the elderly and encourage private saving.

• Changes that have a continuing positive effect on the system's actuarial balance and provide automatic responses to changed circumstances (such as larger-than-anticipated increase in life expectancy) are preferable to one-time changes that merely postpone insolvency.

• Changes in Social Security benefits should be enacted promptly and phased in gradually. Workers need reasonably accurate information concerning expected Social Security income in order to make informed decisions about retirement saving and retirement age, and they require adequate lead time to plan and adjust their behavior to any changes in the system.

Through CED's deliberate, analytical approach, we were able to reject several approaches:

• We reject "full privatization" because such a system is unlikely to preserve an adequate social safety net and faces difficulties in financing the transition to a private-based system—the so-called "double-burden" which must be paid by some group of tax payers who must meet the obligations of the already, or soon-to-be, retired, as well as their own retirement. Many advocates of privatization fail to address this transition cost at all, or dismiss it by arguing, quite unconvincingly in my view, that it can be easily resolved. When pressed, their solutions often involve totally unrealistic and unacceptable schemes,[2] including higher taxes, and/or debt and deficits.

• We also reject the "partial privatization" schemes that divert or "carve out" a large portion of the existing payroll tax to fund private personal security accounts (PSAs). The primary reason for rejecting this approach is the enormous build up of public debt that would be necessary to make up the loss of income to the trust fund that results from the carved-out revenue. Some advocates of the carve-out approach argue that this added debt is not a problem because it merely makes unfunded federal obligations explicit rather than implicit as they are in the current pay-as-you-go system. However, this argument fails to recognize the economic difference between an unfunded liability, which can be altered by law, and a contractual debt, which cannot be wiped clean short ofrepudiation, with its unacceptable, even catastrophic, consequences. We also rejected the PSA approach because the reductions in the basic benefit would reduce the social safety net to levels below which CED finds necessary to protect all members of society.

• CED also rejects the so-called "maintain benefits" approach because its implausibility it ignores the political dimension of declining support for Social Security, especially among young people. The falling support is related directly to the "moneysworth," or rate of return, issue. As noted above, CED believes that failure to address the issue of falling political support along with the problem of fiscal solvency can only lead to a far more costly reform in the future.

• Nor do we agree with the argument made by advocates of the "maintain benefits" approach that implies that Social Security's fiscal problem is relatively small and therefore can be easily fixed. Even using the Social Security actuaries' intermediate projection, which many regard as optimistic, the current 75-year actuarial deficiency is 2.2 percent of taxable payroll. This translates into a 17.4 percent increase to the current payroll tax today. I see very little support today for tax increases in general, let alone one of that size and for this purpose. I emphasize this last point because I ask you to keep in mind the fact that this actuarial deficiency increases with delay; the cost in terms of abrupt change—that is, a larger tax hike or benefit cut—goes up each year reform is delayed.[3] Moreover, CED is skeptical that the added revenue from such a tax increase would be saved rather than spent by the government, and we are concerned that such a tax increase would raise labor costs and make the U.S. economy less competitive.

• Finally, with respect to this approach, CED strongly opposes the proposal to invest public trust fund assets in private securities. We regard this as posing an unnecessary and undesirable risk to the independence of the private sector.

CED'S PLAN/RECOMMENDATIONS

I turn now to CED's plan for reform of Social Security. CED's approach fits best in the so-called "add-on" category of reform proposals because we would add a second tier to the basic Social Security system. Consistent with our ing Social Security

[2] Some of these include sale of government assets (such as public land), a national sales tax, and elimination of "corporate welfare."

[3] The 75-year actuarial deficit deteriorates simply do to the passage of time. Each year, when the projection is updated, a "surplus" year is dropped and a "deficit" year is added to the projection horizon.

must address both the fiscal and political sustainability problems, we have proposed a two-pronged reform package.

Part I—Restore Solvency to the Current Basic Benefit System

A solvent and viable defined benefit system very similar to the current program is integral to CED's plan. CED would ensure long-term solvency of the current system by preserving the existing financing base—the payroll tax—and by gradually making equitable reductions in Social Security benefits.

Our recommendations for benefit changes to the Social Security trust fund are similar to those made by others in this regard. But, unlike other proposals, the savings from CED's proposed reforms exceed by a substantial margin the amount necessary to meet the 75-year actuarial requirements. We did this for two important reasons: 1) to provide a cushion in light of previous overly optimistic projections, and 2) to ensure fiscal balance beyond the 75-year projection period (not simply making it to the 75th year, and then going belly-up).

Specifically, CED's recommendations would:

1. Gradually reduce the *growth* of the initial benefit (the PIA);
2. Gradually increase the years of covered employment necessary to receive full benefits from 35 to 40 years;
3. Gradually raise the normal retirement age to 70 years (while preserving a less generous early retirement option at age 62);
4. Tax Social Security benefits in excess of contributions, as is now done for private pensions (a long-standing CED recommendation).

These changes would have little or no effect on current beneficiaries or older Americans near retirement. Given current long-run projections, the modest changes to the current benefit structure recommended by CED should be more enough than to restore 75-year actuarial balance. And if current projections turn out to be correct (i.e., if they do not deteriorate with time as they have in the past), you or your successors can have the pleasant task of restoring benefits or cutting payroll taxes.

Part II: A Second Tier—Private, Individual Retirement Saving Accounts

As I argued above, addressing only the fiscal imbalance in the current system ignores the political reality of the growing dissatisfaction with the current system that stems from the low rate of return received by younger workers on their contributions. In CED's view, the Social Security problem will not be solved unless the overall "moneysworth" of Social Security is raised. In fact, fixing the fiscal side of the problem—which necessarily means raising taxes and/or cutting benefits—would further reduce the rate of return, which in turn would further undercut the crucial political support for Social Security.

To accomplish this CED therefore proposes a new, compulsory saving program that will help restore the moneysworth of Social Security contributions. We believe it will also significantly raise national saving. Our country's chronically low saving rate is especially relevant in the context of Social Security reform because higher national saving is essential to produce the higher productivity gains needed to support equitably future workers and retirees.

Specifically, we recommend adding a system of universal Private Retirement Accounts (PRAs) to Social Security. PRAs would be funded by a mandatory contribution, amounting to three percent of payroll, split evenly between employees and their employers. This increased contribution would represent an increased cost, but because those making the contribution would own the resulting PRAs' assets(through a non-governmental intermediary), *contributions should not be seen as a tax*. The government would not have access to these funds. The mandatory contribution would be similar to a state mandating that drivers obtain private automobile insurance. Funds in PRAs would be managed by individuals and could only be invested in approved financial instruments, including private securities. That the funds would not be held by the government distinguishes CED's recommendation for private retirement accounts from the "add-on" approach suggested by Chairman Gramlich of the Advisory Council, which recommends that the accounts be held by the government (Gramlich's proposal calls for a 1.6 percent contribution by individuals, with no contribution from employers). The reason this approach should add to national saving is that many Americans currently do not save, or save very little, and would therefore be unable to divert contributions from other saving plans to their PSA contributions. Moreover, about half of all workers currently are not covered by private pension plans; under CED's proposal for universal mandatory PSAs, all workers would have a defined-contribution, private pension plan.

Quite apart from esoteric arguments of budget scorekeeping, we believe there is a fundamental, and economically important, difference between the federal government holding these assets and individuals holding them. If the government holds the accounts, there is a real risk the money will be spent by the government.[4]

Contributions to the private accounts would made from pre-tax income, similar to 401(k) contributions, and would be fulthey are withdrawn. Regulation would also be similar 401(k)s. Funds must be held until, and annuitized at, retirement. We elaborate on these and related recommendations in our report. Adding a second tier of PRAs to a fiscally-solvent Social Security would achieve several desirable objectives (the following are taken from p. 54 of the CED report, Fixing Social Security):

- Protect the basic economic security of future retirees by 1) ensuring the solvency of the basic defined-benefit system and 2) creating a new, privately owned source of retirement income for all workers;
- Raise national saving and thereby provide for greater capital formation needed to achieve higher long-term economic growth (thus making it easier to finance the nation's retirement needs);
- Prevent the return on contributions from falling to unacceptable levels and restore the faith of younger workers in the Social Security system; and
- Help part-time, self-employed, and contingent workers adjust to changing labor market conditions by providing a new source of fully portable retirement benefits for those without employer-provided pensions.

Concluding Remarks

The costs of not acting expeditiously to reform Social Security are high. We are on an unsustainable course, which means it is meaningless to compare future benefits based on current law to benefits of various reform options. Likewise, it is wrong to look at the trust fund's balances and conclude that there is plenty of time to act. The trust fund is an accounting construct that bears little or no relation to the long-term fiscal health of the economy as a whole. Long before the trust fund would become technically insolvent (around the year 2029) its outlays would greatly exceed revenues, forcing the government to borrow massively to redeem the trust fund assets. The economic consequences of borrowing to pay our liabilities under the existing program will bite and bite hard. There is no "drop dead" date, but the impact will be felt in credit markets around 2010, whon after the baby boomers begin retiring.

Waiting until the problem becomes a crisis will entail not just incalculable political pain, but far greater costs. Facts alone apparently will not carry the day. Political leadership is needed. Only policy makers—Republicans and Democrats, Congress and the Administration—can put Social Security reform on the table and then act in the best public interest. Acting now would allow gradual phase-ins of program modifications; acting later will not. As we conclude in our report, acting now, "is the only way to avoid harmful tax levels, benefit cuts, or massive budget deficits in the future" (p. 54).

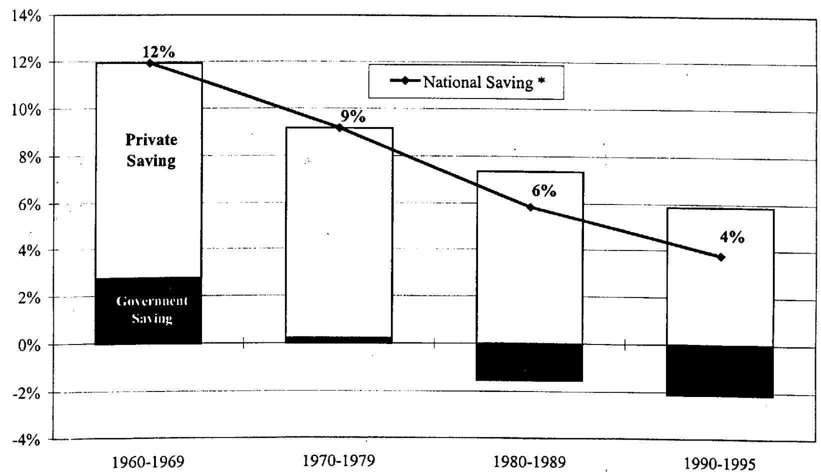
Finally, I would like to make a personal observation consistent with what I have just said. It strikes me as possible that enactment of the balanced budget agreement will provide a window of opportunity for Social Security reform, when the issue can be faced not in the context of balancing the budget or deficits, but rather in the context of protecting the system and its present and future beneficiaries.

(i) In accordance with the disclosure rules of the U.S. House of Representatives applicable to witnesses, The Committee for Economic Development does not accept federal funds.

[4] When Congress refused to raise the federal debt limit in late 1995, Treasury Secretary Rubin delayed interest payments and withdrew funds from the individual accounts of federal employees in order to avoid default (see Fixing Social Security, op cit, p. 47).

Chart 13

The Decline in Saving Is Both Public and Private



* Net National Saving = Net Private Saving + Net Government Saving. Figures expressed as a percentage of Net National Product.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Mr. BUNNING. Thank you, Doctor. If you would stay around, we would like to ask questions of some of you.

Mr. Macey.

STATEMENT OF SCOTT J. MACEY, CHAIRMAN, ERISA INDUSTRY COMMITTEE

Mr. MACEY. Good afternoon. I am Scott Macey. I'm appearing in my capacity as chairman of the ERISA Industry Committee. We appreciate the opportunity to testify before the Subcommittee.

We are not here today to evaluate or comment upon the need for Social Security reform or specific proposal regarding Social Security reform. Rather, our primary concern today, and ongoing, is the interrelationship of Social Security and the private pension system. We respectfully urge the Subcommittee to study and evaluate the role of the private pension system in retirement security and the impact any reform proposal or actual legislation is likely to have on the employer-sponsored pension plan system. It is somewhat like a necessary "pit stop" at the Indy 500. It's critical to the ultimate success of whatever this Subcommittee, and ultimately the Congress, does.

We note with agreement that Congressman Pomeroy from North Dakota commented at length upon the critical and significant contribution of the private pension system to the well-being of millions of Americans.

We have submitted written testimony, and we call your attention to it. In the few minutes available this afternoon, we would like to comment on a few of our primary concerns. Before that, I would like to mention a few background facts.

First, there is widespread and increasing participation in private pension plans. Second, there is widespread and increasing receipt of benefits by millions of Americans under those plans. These private plans are important to employers, but they're critical to the financial security of millions of American families. In fact, private pensions now pay as much annually as the Social Security system does in the total amount of benefits.

The key point, and our critical concern, is the relationship and interrelationship of Social Security and private pension plans. These two systems, in a way, are joined at the hip. Almost all plans take Social Security into account, either implicitly or explicitly, in one fashion or another, and frequently both in the design and in the determination of the amount of benefits. Any changes to Social Security will necessarily impact the private pension system and the design and operation of private pension plans.

It is critical that the consequences of Social Security reform on the private employer pension system be evaluated by this Subcommittee and Congress as a whole. Such consequences could be significant; and they could be adverse. They could be adverse to the employer sponsors, but, more significantly; and they could be adverse to millions of working Americans and their families.

Social Security does not operate in a vacuum. Rather, it is only a part of a sound retirement policy, which also includes private pensions and individual savings. The total dollars employers have available to spend between Social Security and employer provided benefits under the private system are limited. Any reform will not cause the size of that pie to grow. We hope that, whatever reform emerges, it does not inadvertently result in shifting responsibilities, or is not a veiled attempt to shift responsibilities of the public system to the private sector, which is already funding and administering a multitrillion dollar system on behalf of tens of millions of Americans. Our concerns include shifting to the private sector any responsibility to manage and administer the public system.

The nature and specifics of Social Security reform will, of course, dictate the specific issues affecting pensions that will need to be addressed. But in any reform, issues such as benefit levels and design, changes to employee expectations that may change employee behavior with respect to pension plans, and administrative challenges and funding issues will need to be explored.

We urge this Subcommittee and all of Congress to evaluate the reform proposals with a clear focus on the impact on the private system. There is no easy fix; there is no easy answer. The issues are complex and they are deserving of detailed attention.

The term may be trite, but in reality, we are dealing with a zero-sum game. We hope that we don't take pressure off the Social Security system and cause problems or put pressure on the private system. The Social Security and private retirement systems really operate together, and any reform in one must consider the impact on the other. Also, in any reform proposal or actual legislation, we hope that there is sufficient lead time and transition time so that the private system and millions of Americans will have the time to react to those changes and plan for their retirements.

In a way, this whole process reminds me somewhat of a Chinese ideogram, the Chinese ideogram for crisis. I am told—and I don't study the Chinese characters personally—but I'm told the Chinese ideogram for crisis is really two separate symbols, one for danger and one for opportunity. We hope that this Subcommittee and Congress heed some of the warnings of the dangers that Social Security reform could have for the private pension system if the issues aren't evaluated, and take the opportunity to review the private pension system and the impact on the private pension system that any of these reform proposals will have.

Thank you very much for the opportunity to testify.

[The prepared statement follows:]

Statement of Scott J. Macey, Chairman, ERISA Industry Committee

Mr. Chairman, members of the Subcommittee, my name is Scott Macey. I am Executive Vice President, General Counsel of AT&T/ASA Actuarial Sciences Associates, Inc. I appear before the Subcommittee in my capacity as Chairman of The ERISA Industry Committee, and my remarks represent solely the views of that organization.

THE ERISA INDUSTRY COMMITTEE

The ERISA Industry Committee (ERIC) represents the employee benefits interests of over 130 of America's largest companies. ERIC's members provide comprehensive retirement, health care coverage and other economic security benefits directly to some 25 million active and retired workers and their families. Thus, we have a strong interest in proposals affecting our members' ability to deliver those benefits, their cost and effectiveness, as well as the role of those benefits in the American economy.

INTRODUCTION

Too often, discussion of Social Security reform treats the Social Security program as though that program operates in isolation and independently from other significant sources of retirement security. Retirement income security today is provided not just through Social Security but also through voluntary, employer-sponsored retirement plans, individual savings, family support, and, increasingly in recent years, part-time work [1]. In fact, Social Security provides less than one half of the combined income of individuals age 65 and older.[2]

If any other source of retirement income is highlighted at all in discussions of Social Security reform, it is usually individual savings. Seldom, however, is the role of employer-sponsored retirement plans considered.

While Congress may need to enact Social Security reform in the near future, I am not here today to offer our opinion on the need for Social Security reform nor to discuss the merits of one set of reform proposals over another. The ERISA Industry Committee and its members are, like this Subcommittee, reviewing all the available data, and as a group have not determined what is appropriate Social Security reform.

I am here instead to urge that the Subcommittee begin now, as part of its examination of the challenges and options facing the Social Security program, to consider the role of voluntary, employer-sponsored retirement plans and the impact of Social Security reform on those plans. Failure to do so likely will result in significant disruption to the private retirement system and the possible loss of valuable retirement benefits to millions of workers.

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[1] At the end of 1993, according to the Bureau of Labor Statistics (BLS), 1.4 million male retiress age 50–64 also worked, up from 1 million in 1984, even though the size of the cohort of all males aged 50–64 (working, partially retired, and retired) was approximately 15.8 million in both years. In most cases they worked full time for an employer other than the one providing their pension. Among those age 55–61, 49% had jobs in 1993 compared to 37% in 1984; and 73% of male pension precipients age 50–54 also had jobs, up from 64% in 1984. [AARP Bulletin, July-Aug 1995, p. 8.]

[2] In 1993, individuals age 65 and older received 42.3% of their income from social security, 20.5% from pensions and annuities, 18.6% from income-producing assets, 15.1% from wages, and 3.4% from other sources. [EBRI tabulations of the March 1994 Current Population Surveys (CPS), as reported in the June 1995 EBRI Notes.]

THE ROLE OF EMPLOYER-SPONSORED RETIREMENT PLANS

First, it is helpful to review the scope of the present employer-sponsored retirement system:

• Retirement as an Option. In recent decades, choosing to retire while still physically vigorous became an option for a rapidly increasing percentage of workers. This is especially evident in statistics tracking retirement practices of male workers. In 1970, 83% of all men aged 55–64 and 26.8% of men aged 65 and over were in the work-force. By 1994, only 65.5% of men aged 55–64 and 16.8% of men aged 65 and over were work force participants.[3] The availability of employer-sponsored pensions has been a critical factor in these trends.

• Widespread Participation. In 1993, 51 million out of 118 million civilian workers (43%) participated in (i.e., were accruing benefits under) employer-sponsored retirement plans. Of those 51 million, 44 million already had a vested (i.e., nonforfeitable) right to a benefit.[4] Plan participation is concentrated among workers most likely to require benefits in excess of Social Security in order to retire. Participation in plans is lower for younger workers and increases dramatically for older workers. In 1993, plan participation for workers age 41–50 was 62%.[5] Participation also increases dramatically for workers earning more than minimal wages. Among men earning between $30,000 and $39,000 in 1993, 75% participated in a plan, and women at these wage levels had a slightly higher participation rate than men.[6]

• Widespread Receipt of Benefits. Since 1974 (the year the Employee Retirement Income Security Act, ERISA, reforms were enacted), the number of individuals and retired families receiving benefits from employer-sponsored plans has climbed steadily, due in part to ERISA's vesting rules, benefit protections, and funding standards. In 1974, approximately 25% of retired families received benefits from employer plans; by 1988, 40% of retired families were receiving such payments. By 2018, when the baby-boom cohort will be moving rapidly into retirement, the 40% is expected to climb to over 75% of retired families, and to pass the 80% mark shortly thereafter.[7] That 80% of retired families in the U.S. will receive benefits from a voluntary employment-based system is a mark of the private sector's success under current federal law in establishing and expanding employer-sponsored plans. It is also evidence of the importance of supporting this system for the future as the baby-boom generation retires.

• Value to Employers. Employers traditionally have valued retirement plans as effective management tools to attract and retain employees, to motivate employees, and to facilitate the departure from the workforce of older employees who either cannot or do not desire to continue working.[8] 48% of U.S. workers surveyed in the 1994 EBRI/Greenwald Retirement Confidence Survey responded that money provided through employer-sponsored pension or savings plans would be their most important source of retirement income. This compares to 27% who expect personal savings or investments to be the most important source, 14% who named social security, and 9% who named other sources as most important. [EBRI Issue Brief #156, p. 12.] More recently, it is also clear that the impact on employees due to the downsizing and reorganizing of many U.S. companies in recent years was dramatically reduced through the flexible use of early retirement options under employer-sponsored pension plans.

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[3] Statistical Abstract of the United States 1995, page 399. (Note: Interestingly, and perhaps for unrelated reasons, the workforce participation rate for women aged 55–64 actually increased during this period and remained relatively constant for women age 65 and over. [see EBRI Issue Brief #140, Aug 1993.])

[4] EBRI Issue Brief #153, Sept. 1994, p. 21; EBRI tabulations of April 1993 CPS employee benefit supplements.

[5] EBRI Issue Brief #151, July 1994, pp. 19–20; EBRI tabulations of April 1993 CPS employee benefit supplements.

[6] Schieber, Sylvester J., and Laurene A. Graig, U.S. Retirement Policy: The Sleeping Giant Awakens, The Wyatt Company, 1994, pp 24–25.

[7] EBRI Databook, pp. 105 & 115. "Retired families" are defined as married couples living together where at least one spouse is age 55 or over and nonmarried persons aged 55 and over. The data assumes that lump-sum distributions are preserved until retirement and that income is paid in the form of an annuity, but provide a realistic estimate of the proportion of baby boomers who will earn pension wealth and benefit from it economically.

[8] The value of employer-sponsored pension plans to employers, who must effectively manage their workforces, and to employees who desire personal economic stability may be reflected in survey responses that indicate that current workers expect that funds provided through employer-sponsored pension or savings plans will be their most important source of retirement income. Of U.S. workers surveyed in the 1994 EBRI/Greenwald Retirement Cindfidence Survey, 48% responded that funds provided through employer-sponsored pension or savings plans would be their most important source of retirement income. [EBRI Issue Brief #156, June 1994, p. 16.]

• Critical Component of Retirement. For the past several years, annual benefits paid from employer-sponsored retirement plans have matched those paid from the Social Security system.[9] Employer-sponsored plans also hold the bulk of funds in retirement savings plans. In 1994, of the $5.9 trillion in all retirement plan trusts (including public employer plans, private employer plans, Individual Retirement Accounts (IRAs), and Keogh plans), over $4.9 trillion was in public employer and private employer-sponsored plans.[10]

THE ROLE OF SOCIAL SECURITY AS A BASIS FOR EMPLOYER PLANS

Congress must recognize that changes to the Social Security program will trigger changes in the employer-sponsored retirement plan system. While it cannot stand by itself in providing adequate retirement income to the elderly, Social Security has been a bedrock of the U.S. retirement system since it was introduced in 1935. Almost all pension plans, including those sponsored by the employers ERIC represents, take into account as part of their design the government's promise that Social Security benefits will be paid at a certain age in certain amounts. If Social Security, which already accounts for a significant part of the employer's total compensation cost, does not deliver the benefits currently scheduled to be provided, employers will not be able to make up the difference without adverse consequences elsewhere, including reduced business competitiveness or reduced employment.

Employer-sponsored retirement plans take many forms. Employers often design their retirement plans to further business and workforce goals. An employer may sponsor a traditional defined benefit plan or a traditional profit-sharing or defined contribution plan. But the employer may also choose among a growing number of plan designs. The most popular "new" plan by far is the 401(k) plan, but other plans such as target benefit plans, age-based profit-sharing plans, cash balance plans, pension equity plans, floor offset plans, or retirement bonus plans may be used by an employer to meet its workforce needs. Social Security reform could impair the ability of these plans to meet business and workforce needs and to deliver benefits to employees.

Each substantive Social Security reform proposal is likely to be compared in detail to the present Social Security program in terms of benefit adequacy, benefit equity, financial stability, and impact on the economy. The important point is that each such proposal also must be analyzed to determine how it will affect employer-sponsored plans and their ability to meet their own objectives. Once reform is enacted, we can be certain that each employer sponsoring a plan or plans will ask those questions—and will modify its plans accordingly.

Finally, once the effect of the proposed Social Security reform on current employer-sponsored plan designs is understood, we must also ask whether the new combined system is likely to meet societal goals of providing retirement income to individuals, since neither the Social Security system nor the employer-sponsored pension system has been designed as stand-alone retirement programs.

SPECIFIC AREAS THAT MUST BE EXAMINED

While the extent of changes triggered in employer-sponsored plans obviously will be determined by the contours of whatever Social Security reform Congress enacts, there are several areas of change that we believe will be important to examine in any reform effort. Employer plans currently rely on Social Security benefits of certain amounts being paid at specified ages. Indeed, according to Social Security expert Robert Myers, benefits provided under the Social Security program have been remarkably stable over the past six decades. According to his calculations, the wage replacement rate for an average worker in 1940 was 40 percent—approximately the same level that it is today.[11] We are only now confronting the first increase in the age at which full benefits must be obtained.

Many of the various Social Security reform proposals introduced to date reduce Social Security benefit levels, further delay the age at which full Social Security benefits may be claimed, seek to approximate current Social Security benefit levels through a combination of a smaller defined benefit and an individual savings account plan, or some combination of these options.

Any of these changes—which Congress may find necessary to preserve the basic integrity of the Social Security program—will have effects on the future design and

[9] In 1994, employer plans paid $313 billion in benefits compared with $312 billion in benefits paid from the combined Social Security Old Age and Survivors and Disability (OASDI) programs. [Unpublished updated table for EBRI Databook, p. 14.]

[10] IRA and Keogh plan assets totaled $975 billion in 1994. [Unpublished EBRI data.]

[11] Myers, Robert J., Social Security, Second Edition, p. 262.

efficacy of benefits paid from employer-sponsored plans that must be taken into account. The effects that we at ERIC have identified to date fall into four general categories: (1) the design of employer plans and the benefit levels provided by those plans, (2) changes in employer plans prompted by employee responses to a changed Social Security program; (3) administrative challenges of moving to an altered Social Security program; and (4) other issues.

BENEFIT DESIGNS AND LEVELS

The most immediate impact of changes in Social Security benefits levels will be on plans that are "integrated" with Social Security. Under the Internal Revenue Code, employers may take the availability of Social Security benefits into account in their benefit plan formulas either explicitly or implicitly. These provisions of law recognize that employers pay one-half of the Social Security taxes and that Social Security benefits are weighted toward lower wage levels.

As the Subcommittee knows, Social Security benefits generally replace a little over 40 percent of the wages of a worker earning $26,000, and almost 60 percent of the wages of a $12,000-a-year low wage worker. However, Social Security benefits replace less than 20 percent of the wages of a worker earning $80,000 at the end of his or her career. In order to retire, the worker earning $80,000 at retirement must have a greater replacement of wages from his or her pension plan and private savings than the lower wage worker. If the defined benefit portion of Social Security is significantly reduced, benefits from the pension plan will, under some plan designs, automatically increase and become dramatically more expensive, and under other designs, result in a decrease in their essential value. Regardless of the plan design, however, employers necessarily will reassess the efficacy of their plans and make adjustments designed both to meet their business needs and to manage the financial costs.

While the benefits provided under approximately one-half of pension plans are adjusted to reflect the availability of Social Security benefits, virtually all plans assume that their participants will receive Social Security benefits similar to those of current law. In addition, most plans are designed to allow employees to replace a certain portion of their wage income with both Social Security and pension benefits. Thus, all plans will be affected by reductions in the Social Security defined benefit whether or not the plan's design explicitly or implicitly links its benefits to Social Security benefits. We urge the Subcommittee to analyze the relationship between Social Security and private pensions in order properly to allocate the burdens and benefits of any changes and to allow for a significant transition period.

Employer reactions could include increasing pension benefits at the expense of other components of the compensation package, relying on employees to provide a greater portion of their retirement income through personal savings, severing promised benefits from replacement rate targets, targeting a greater percentage of plan expenses on employees who are near retirement age compared to employees who may leave the company prior to retirement, or reassessing total workforce needs.

Other areas where changes in Social Security benefits may have a direct impact on benefits provided under employer plans include:

- Plans that provide "bridge benefits" from the date of retirement under the plan until the employee reaches the Social Security retirement age could incur dramatic increases in cost; and
- Plans that provide a guaranteed minimum benefit level could be required to pay that benefit with greater frequency.

EMPLOYEE RESPONSES

The ability of an employer's plans to meet its business objectives is significantly affected by employees' responses to the opportunities provided under those plans. For example, if an employer's plan is designed to provide employees with an income that will allow them to retire at a certain age, but the employees do not perceive that they will have sufficient income to retire at that age under a new Social Security system, then they will not retire when the employer expected. The employer must adjust the plan, slow down its hiring or increase layoffs, or make other changes in its business operations. If an employer plan is designed to provide employees with a certain level of personal savings, but employees, under a new Social Security system, either increase or decrease their participation in the employer plan, then the objectives of that plan, and its role in the employer's compensation package, will be reassessed by the employer. In order to meet employee expectations in a tight labor market, for example, employers may reduce support for such retirement plans in favor of cash compensation, reducing both national and personal savings.

The Subcommittee should consider several critical questions in its deliberations:

- If a new Social Security system includes individual employee savings accounts, what impact will the existence of those accounts have on similar programs managed by employers? Will employees increase or decrease their savings in employer plans? Will the provision of matching savings by the employer make a significant difference in employee behavior?
- If a significant portion of the current Social Security annuity benefit is replaced by individual accounts where the employee bears the risk of investment performance, will employees ask employers to establish or increase benefits provided under defined benefit plans at the worksite? If they do, will the government be willing to reverse the trend of the last fifteen years and remove the many funding restrictions that have been imposed on these plans in order to raise revenues for federal government expenditures?
- If employees are denied pre-retirement access to savings in any new Social Security individual accounts, will that increase pressure to provide access to retirement savings in employer-sponsored individual savings plans? If employees are provided pre-retirement access to savings in Social Security individual accounts, will that increase or decrease pressure to provide access to savings in employer-sponsored plans?
- If the Social Security retirement age is increased, will that increase pressure on employers to provide "bridge" benefits, even if other benefits must be reduced?
- If the Social Security retirement age is increased and pressure increases to delay retirement, what will be the impact on plans that cease accruals at a certain point (usually after a number of years of service)? And what will be the impact of the increased cost of delayed retirement on plans that provide accruals indefinitely?
- Finally, while employers already invest heavily in programs to educate their employees about retirement, Social Security reform will dramatically increase the need for such education. Will this be left to employers, or will this be a cooperative venture with the government?

Administrative Concerns

Many questions already have been raised about administrative issues that would arise under some of the proposed changes to the Social Security program, especially a Social Security program that includes an individual account plan. We hope that this Subcommittee and the Congress does not assume that the burden of administering such a program should be shifted to employers. That burden would dramatically reducing the ability of employers to meet employee needs through their own plans. Moreover, relying on employers would vastly complicate the tracking of necessary information since the Social Security account would have to be transferred—sometimes repeatedly—as the employee moved from workplace to workplace.

Just as critical—and consistently overlooked—is the design and administration of the employer's own plans during a period of transition to a reformed Social Security program. It is entirely possible that an employer who now has a single retirement plan for its employees would be forced simultaneously to administer its current plan for older employees, who likely would be grandfathered under the current Social Security program, an entirely different plan for young employees, who expect to retire under a reformed Social Security program, and one or more other plans for middle-age employees who are under one or more transitional Social Security programs.

Obviously, this complicates not just plan administration but employee education and could easily frustrate an employer's ability to meet its business objectives. Under such circumstances, many employers—particularly small employers—may decline to offer a retirement plan to their employees. Increasing administrative expenses has, in the past, resulted in a measurable reduction in the number of employers who sponsored pension plans for their employees.

Other Issues

Other issues have occurred to ERIC, and still more issues will come to light as we continue to study the important national policy concerns regarding Social Security. For example:

- Whether or not a defined benefit pension plan is well funded going into a period of transition will affect its flexibility in addressing issues raised by a reformed Social Security system. Yet the funding rules applied to defined benefit plans under current law are restrictive, arbitrary, and volatile.
- Whether a Social Security reform plan enacted by Congress maintains the current program's disability and survivor protections also will impact employer plans that depend on these protections being available.

CONCLUSION

In summary, Mr. Chairman and Members of the Subcommittee, the task before us is large and daunting. Your diligence in seeking to understand as many aspects of the need for reform of the Social Security program as possible through this series of hearings is highly commendable. The stakes are too high and the opportunity to cause unnecessary harm too great to move forward without full deliberation. That does not mean, however, that the Subcommittee should deliberate until there is no choice but to act immediately. There is no area where early action is more important. Only through early action and an appropriate transition period will employers and workers have the opportunity they need to adjust to changes in this fundamental, universal national program.

Mr. BUNNING. Mr. Macey, thank you very much.
Dr. Batts.

STATEMENT OF WARREN L. BATTS, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, TUPPERWARE CORP., AND CHAIRMAN, PREMARK INTERNATIONAL, INC.; ON BEHALF OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. BATTS. Thank you. I am testifying today as chairman of the National Association of Manufacturers, NAM. I am also chairman and chief executive officer of the Tupperware Corp., and chairman of Premark International. In my time I would like to make three points, which we can discuss further.

First, we in the NAM strongly believe that the two greatest threats to the long-term viability of the U.S. economy are two of our own Federal Government programs: One is Medicare, and the other is Social Security.

Unfortunately, this statement is not meant for dramatic effect. Today, even more than the issues affecting trade, regulatory reform or tax policy, the NAM believes reform of our entitlement programs is the single issue most important to economic growth for American business and the economic security and independence of American citizens.

If the budget is balanced in 2002, it will only be a momentary blip on the screen, as the deficit will soar shortly thereafter by the explosion of costs for entitlement programs. Why? Because the projected costs of the programs exceed the funds that will be available under any reasonable level of taxes or national debt.

If our Social Security system is not reformed and the Government seeks to raise enough additional funds through new taxes, or issue the amount of new debt necessary to pay for the shortfall, the economy will simply be stood on its head.

Let me give you an example. The amount of new debt required to reimburse or fund the Social Security Trust Fund after 2012, when the annual cash receipts from workers will be less than the benefits to retirees, will initially be $75 billion the first year and will increase to hundreds of billions of dollars a year until it peaks in 2030. Neither this economy nor any economy has the strength or resiliency to absorb the necessary level of increased taxes or debt necessary to pay for these programs and remain competitive in the global marketplace. If the United States can't compete globally, at best our economy will stop growing or, according to the

Congressional Budget Office's estimates under its three scenarios, it will decline.

My second point is to summarize the NAM statement of principles for the reform of the Social Security system which are attached to the testimony. While we do not endorse any specific reform or proposal yet put forward by legislators or the public policy institutions, NAM principles address the prerequisites of fundamental reform, features which the reform of the system should possess to achieve both the goals of fairness, which have been mentioned by several individuals today, and the continued growth of the economy.

Principle number one is that the safety net, the protection against poverty in old age, must be maintained and enhanced. To protect every citizen from ending their days in poverty was the original purpose of Social Security. That goal is still valid and worthy of national support.

Principle number two is that the individual should own the savings he or she accumulates over his or her working life. This means separating the Social Security tax into the safety net insurance and the retirement savings components. Individual ownership of and vested rights to his or her accumulated retirement savings are well established as legal principles and protected by Federal law. Whether such savings are to be accumulated until retirement and not used for any other purpose. In short, individuals should own their retirement savings, no less than they own the home they live in or shares of stock.

Principle number three is that amounts saved by individuals for retirement should be held for the exclusive benefit of the person doing the saving. To this effect, the Government itself should defer to pension law already on the books. The so-called exclusive benefit rule under ERISA means the retirement savings exist for one purpose: To provide income to the individual who did the savings. The Government should have no right to control the investment of the funds. In addition, the NAM reform principles emphasize the importance of moving very rapidly.

My final point is that we also believe it makes eminent sense to put Social Security reforms to a practical test. The NAM endorses the idea put forward by a Member of Congress for the creation of a demonstration program to test the feasibility and popularity of Social Security reform. Such a demonstration project would allow up to a half a million American workers between the ages of 20 and 30 to participate for a 5-year period in a program of individual retirement accounts in lieu of participation in the Social Security system. We believe that the demonstration program would prove very popular and that it would provide Congress with highly valuable information immediately in regard to levels of participation and choices made among retirement savings plans, and detailed data throughout the 5-year period on savings patterns, investment choices and operating costs for individual accounts.

Mr. Chairman and Members of the Subcommittee, in closing I wish to emphasize again the seriousness of the threat to the individual and to the American economy from an unreformed program.

Thank you.

[The prepared statement follows:]

Statement of Warren L. Batts, Chairman and Chief Executive Officer, Tupperware Corp., and Chairman, Premark International, Inc.; on behalf of the National Association of Manufacturers

Thank you Chairman Bunning. I am Warren Batts, Chairman and CEO of the Tupperware Corporation, and Chairman of Premark International, Inc., and of the National Association of Manufacturers. I am pleased to represent the NAM today in testifying before this subcommittee.

This morning, I shall make observations concerning:

- The importance of economic growth to all Americans, and the negative effects of unreformed entitlement programs on such growth;
- Certain "principles" for reform of the current Social Security System, offered for the consideration of this Subcommittee; and,
- A suggested "demonstration program" as a way to test the popularity and feasibility of reforms.

Entitlement programs, economic growth, and fundamental fairness to Americans.

Mr. Chairman, two programs of the federal government present significant threats to the continued vitality of the U.S. economy: One is Medicare; the other is the Social Security retirement system.

I don't make this statement for the sake of dramatic effect. In fact, if my objective were to shock the Subcommittee and members of Congress, I could find words more pointed than that the programs "significantly threaten the vitality" of our national economy. The truth of the matter is that Medicare and Social Security constitute promises which are beyond the ability of the government to pay. The projected costs of the programs exceed the funds that will be available. And if government sought to raise enough additional funds through new levels of taxes to pay for the continuing shortfall, the economy would simply get turned on its head, with both individuals and businesses contributing increasing portions of their earnings to pay for entitlement programs out of control.

Neither this economy nor any economy has the strength and resiliency to absorb the necessary level of tax increases to pay for these programs and remain competitive in the global marketplace. Global competition destroys those who are complacent or inefficient, or those whose organizing principles come from obsolete ideologies. If we lose our ability to compete effectively in this marketplace, our economy becomes static. At the very least, it can no longer grow; in fact, it is far more likely to decline.

And growth, Mr. Chairman, is what America is all about.

America is an idea based on growth, where successive generations have invested their energy and human capital, no less than their savings, in hopes of material and social progress. And through economic growth, America has achieved a high degree of fairness for individuals. Indeed, any lack of growth by specific groups within our American society is taken as an immediate signal of a lack of fairness.

As this century draws to a close, the rest of the world looks to us, even if it sometimes fails to admit it, and seems finally to have learned what Americans have known since the nation was founded: Economic growth is the best way of accomplishing fairness for individuals within a society. Nations have burned their ideological textbooks and are studying American institutions, beginning with the economic institution that is the individual. Growth is achieved through investment of human and fiscal capital in productive enterprise. Such investment will continue only if the government forebears confiscating the savings of individuals and businesses in order to pay the compounding liabilities of unreformed entitlement programs.

Entitlement programs threaten our economic well-being collectively, and threaten the fairness to all of us as individuals.

Social Security reform and economic growth

Economic growth through increased productivity and competitiveness of U.S. manufacturers remains the most significant goal pursued by the National Association of Manufacturers since its founding more than 100 years ago. The significant attention by the NAM to the critical need to reform our entitlement programs indicates the relative importance we accord the issue. Even more than issues affecting trade, regulatory reform or tax policy, the NAM has identified reform of the entitlement programs as the issue most important to economic growth for American business and economic independence for individuals.

Growing awareness of structural imbalance of the Social Security system

Reform or restructuring of the Medicare system is, of course, an enormous issue. In recent weeks, Congress and the White House have shown increased awareness of the need to address Medicare more broadly. This series of hearings on the Social Security system provides evidence of increased debate of the issue. The title of these hearings, "The Future of Social Security," itself underscores growing popular awareness that the future of the Social Security system actually is in doubt. The NAM regards such doubts as well taken.

For over a decade, the NAM has warned of structural imbalance within the Social Security system and the necessity of fundamental reform. NAM attention to the issue quickened during 1995 and 1996, as popular perception of demographic changes affecting the system sharpened, and as the first legislative proposals appeared.

At its September 1996 meeting, the NAM Board approved a resolution on Social Security reform. In April of this year, the Board approved a "Statement of Principles" outlining its position on reform in greater detail. The principles emphasize fairness for individuals and growth for the U.S. economy.

The NAM Statement of Principles for Social Security reform.

The Statement of Principles adopted by the NAM Board are attached to the written testimony provided in advance to the Subcommittee.

While not endorsing any specific reform proposal yet put forward by legislators or public policy institutions, the NAM principles address prerequisites to fundamental reform—features which a reformed system must possess in order to achieve the goals of fairness for individuals and growth for the U.S. economy.

Less obviously, but no less importantly, the principles address the fact that structural imbalance of the current Social Security system, not merely insufficient funding, makes reform necessary. A fundamental distinction in testimony that this Subcommittee is likely to hear is between those who view "The Future of Social Security" as a funding issue, and those who see reform as a way to address structural imbalance of the current system. Count the NAM among the latter.

Decoupling of retirement savings from the "safety net" of social insurance

In addressing structural imbalance of the current system, the first principle for reform is that savings for retirement be separated from the "safety net" of protection against poverty in old age.

Mr. Chairman and members of the Subcommittee, I probably don't have to tell you that what I've referred to as the "first principle"—that of segregating savings from social insurance—is the most controversial part of the debate over reform of the Social Security system.

From the point of view of those advocating reform, a separation of the savings function from the social insurance element of the current system is overwhelmingly obvious. Any business-person immediately recognizes that accumulation of reserves—"savings"—as a function entirely separate from protecting those reserves through the medium of insurance. Thus, the reaction of pragmatists, such as NAM members, is to make a separate savings function the first principle and cornerstone of reform.

I recognize, of course, that defenders of the current system are likely to disagree vehemently with my assertion that a decoupling of savings from safety-net is "obvious." If I understand their position, it is that the Social Security retirement system represents the great achievement of Twentieth Century liberal democracy—an intergenerational social compact for centralized and scheduled redistribution of funds acquired through federal taxing authority.

While I respect the right to such views, I disagree profoundly with the assumptions about individuals and about economics on which those views are based. But to spare this Subcommittee a discussion of political theory, I'll simply note that changing demographics are making the current system economically obsolete and unsustainable. Hence, our first principle for reform is that the social insurance element of "Social Security" be separated from the accumulation of retirement savings.

Individual ownership of retirement savings

The second NAM principle is that individuals should have an ownership interest in the savings that they accumulate over their working lives.

Individual ownership of retirement savings is not only obvious, but well established as a legal principle under pension law. Individuals retain a vested right to their accumulated retirements savings, protected by federal law. Further, such savings are to be accumulated until retirement, and not used for other purposes. In the event of an individual's premature death, the accumulated savings are available to their survivors and heirs.

In short, individuals should "own" their retirement savings, no less than they own a piece of real estate or shares of stock.

Investment of retirement savings free of government control

The third NAM principle for reform is that amounts saved by individuals for retirement should be held "for the exclusive benefit" of the person doing the savings. To this effect, the government itself should defer to pension law already on the books. The so-called "Exclusive Benefit" rule under ERISA means that retirement savings exist for one purpose—to provide income to an individual in retirement. Such savings exist for the singular purpose of providing retirement income to the individual who has saved the money. The government should have no right to control investment of the funds.

Accordingly, individuals' savings would be held in trust by fiduciaries responsible to the individuals who had saved the money. And within standards similar to those of ERISA, the individual would direct prudent investments. Obviously, this isn't to say that there would be no pooling of individual accounts—of course investment managers would pool accounts, in just the same way that hundreds of billions of dollars in pension plan investments and 401(k) plans are currently pooled.

Early implementation of reforms

In addition, the NAM reform principles emphasize the importance of implementing reforms as soon as possible.

We all recognize the enormity of the transition funding issue. And while detailed proposals for an equitable means of transition funding await the development of econometric models, one thing remains overwhelmingly clear:

Any solution to the issue of transition-period funding ultimately turns upon early implementation of reforms, so that the greatest number of individuals have the greatest amount of time to accumulate individual retirement savings, and thus become less dependent upon the current Social Security system.

Demonstration program for Social Security reform.

Mr. Chairman, the NAM is an organization composed of more than 14,000 member companies that differ in the specifics of their businesses, but that share certain core assumptions. Among the most central assumptions is "practicality"—whether a proposed strategy or activity will prove successful in achieving its goals.

To this effect, NAM efforts in furtherance of Social Security reform have stressed practical economic and political concerns. We believe reform consistent with the NAM principles is not only an intelligent idea but an eminently doable undertaking.

In making such arguments, the NAM has responded to those who oppose reform, ostensibly at least because they regard reform of the Social Security system as impractical. Opponents of reform argue that the detailed record-keeping and funds transfers under a system of individual accounts are not feasible, and further, that as a practical matter, little popular support exists for changing the current system.

Okay then, let's put Social Security reforms to a practical test.

The NAM, upon its own motion, has endorsed an idea put forward by a member of the Congress for creation of a demonstration program to test the feasibility and popularity of Social Security reform.

Such a demonstration project would allow up to a half-million American workers between the ages of twenty and thirty to participate for a five-year period in a program of individual retirement accounts in lieu of participation in the Social Security retirement system. Individuals would have choices among selected types of individual account plans. At the end of the demonstration period, the individuals would have the option of returning to coverage under the Social Security system, as though they never had participated in the demonstration project. In the alternative, the individuals could keep their account balances as savings for retirement, and have their Social Security benefits adjusted actuarially to reflect their five-year absence from the system.

We believe that the demonstration program would prove very popular and that it would provide Congress with highly valuable information and detailed data throughout the five-year period. The program would give Congress a considerable amount of information immediately, regarding levels of participation and choices among retirement savings plans. Throughout the demonstration program, Congress would enjoy a continuing source of information on savings patterns, investment choices and operating costs for individual accounts.

We at the NAM took up the idea of a demonstration program without prior discussion with other trade associations or public policy organizations. We welcome their commentary, but we strongly encourage this Subcommittee and Congress to act quickly, and, at the very least, enact legislation setting up the administrative structure for a demonstration program.

Although we are cautious in speaking for them, we suggest that those in the business of pension record-keeping and funds management might be forthcoming with ideas and technical systems support for such a project.

Summary

Mr. Chairman and members of the Subcommittee, in closing I again emphasize the seriousness of the threat to individuals and to the American economy from an unformed entitlement program. Secondly, I invite your attention to the NAM Statement of Principles for reform of the Social Security system. Finally, I encourage this Subcommittee to report out a bill establishing a demonstration program for Social Security reform.

Thank you, Mr. Chairman. I look forward to answering questions.

Mr. BUNNING. Thank you very much.

Dr. Smith, if you will begin.

STATEMENT OF DAVID A. SMITH, DIRECTOR, PUBLIC POLICY DEPARTMENT, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. DAVID SMITH. Thank you, Mr. Chairman, Mrs. Kennelly.

I should begin by saying that your staff inadvertently promoted me. I taught for a long time, but I'm not Dr. Smith.

Mr. BUNNING. Oh, you're not Dr. Shame on my staff. [Laughter.]

Mr. DAVID SMITH. I appreciate the promotion, but——

Mr. BUNNING. We consider you a Dr. Go right ahead.

Mr. DAVID SMITH. I want to thank you, and actually, in passing, to congratulate you. This is serious business. It's not easy to sit here for 3 hours and listen to a bunch of us talk, and both of you are to be congratulated, both for holding the hearings and taking this question seriously.

Let me begin actually by disagreeing a bit with my colleague from the ERISA Committee. Social Security is the central rock of our retirement system. For average working families, savings matter, private pensions matter, but Social Security provides the cornerstone and the bulk of the resources available for their retirement. In fact, the share of retirement income attributable to Social Security is growing, not diminishing. The continued slight decline in private pension coverage will cause those trends to continue to not diminish.

For important subgroups in the population, Social Security is even more important. Three-quarters of the old-old, folks 75 and above, depend on Social Security for 50 percent of their income. For almost half of African Americans, they depend on Social Security for almost 90 percent of their retirement income. And for the 40 percent of us in the two lowest quintiles of the income distribution, they depend on Social Security for over 80 percent of their retirement income. So we're not talking about a system here where Social Security is merely a piece of the retirement system; it is the cornerstone of it.

Despite efforts, both promotion efforts and the expenditure of billions of dollars in tax incentives, in order to try to encourage private pension coverage and expand private pension coverage, they haven't really taken hold yet. Only one-third of current retirees are receiving private pension coverage, and again, it's even worse for certain groups in the population. Only one-quarter of retired women receive any private coverage.

Last, for all of us, or almost all of us, with the exception of the most fortunate among us, private savings simply don't even show up on the score card as a significant contribution. I would point out that those distribution inequities are likely to be exacerbated in years to come.

What we know about the shift from defined benefits and defined contribution plans is that low-income workers simply don't participate. They can't afford it. When they do participate, they tend to contribute relatively low amounts, that the buildup in assets is simply insufficient to make up for any radical diminution of their anticipated Social Security benefits.

As with my colleague from NAM, the American Federation of Labor, AFL, hasn't endorsed any of the specific proposals that are out here, and we don't expect to. We see these proposals as a useful opening gun and an important national conversation. The decision that you and your colleagues will have to make won't be to pick between the Ball plan, the Weaver plan, the Gramlich plan. It will be to take those plans, contributions that are made by people at this table and elsewhere, and craft a solution which can command broad support. I think it's premature for us, and would argue it's premature for you, to rush to judgment.

We do have a problem and we need to take it seriously, but it is a problem that doesn't confront us tomorrow morning. In that sense, it isn't a crisis. I agree with Congressman Kucinich. I disagree that this isn't something we need to take seriously now.

Let me very briefly suggest some principles that we think ought to guide you in this effort. The program must be mandatory. Some have suggested moving to a voluntary program, a true privatization of the Social Security system. We would strongly disagree. This works because we're all in it together, because of its insurance dimensions. None of us are fortune tellers, and by sharing the risks we assure all of us the opportunity for a decent retirement.

It must continue to assure and meet the test that my colleague said, that every American retires in dignity, that it maintains a minimum benefit level available to all American workers and their families, that will assure that none of us retire below the poverty level.

The important family protections of the system must be maintained. As we think about this as a retirement system, we tend to forget the important survivor benefit questions, the spousal benefit questions associated with Social Security that simply aren't part of our private employee-owned retirement system.

It should honor work, not good fortune. We should make sure that it's not the luck of the draw or where you happen to retire in the business cycle that determines your benefits, but your lifetime of work.

Last, reinforcing a point I made earlier, many of us are living much longer than we thought we would. Many of us now are living longer than any of the annuitized plans thought we would. One of Social Security's enormously important characteristics is that we can't outlive it, and as more of us become part of the old-old, as more of us get to enjoy a longer retirement, it's terribly important that we not be able to outlive our retirement income.

Those principles ought to guide you, at least in part guide you, in your thinking. There are a lot of suggestions. I think all of us would be surprised at the extent to which we agree about some of those suggestions. But they don't add up yet to an answer to the problems that we face, and the deliberations that you're engaged in are critical to that process.

Thank you.

[The prepared statement follows:]

Statement of David A. Smith, Director, Public Policy Department, American Federation of Labor and Congress of Industrial Organizations

Good afternoon, Mr. Chairman. My name is David Smith, Director of the Public Policy Department of the AFL–CIO. On behalf of our thirteen million members and their families, I want to thank you for this opportunity to present our views on this important question.

The key starting point for any discussion of Social Security is the system's central role as the retirement system for average wage workers. Elderly Americans rely overwhelmingly on Social Security benefits for a major part of their income, and a very substantial minority depend on Social Security for almost all of their support. The system provides two-thirds of the elderly with 50 percent or more of their income in retirement. For important subgroups of the elderly population, these benefits play an even more crucial role:

- Three-fourths of the oldest old (75 years and above) and the same proportion of nonmarried elderly women rely on Social Security for 50 percent or more of their income.
- Nearly one-half of the African-American elderly receive 90 percent or more of their income from the program.
- The two lowest income quintiles of older Americans rely on Social Security for 81percent of their aggregate income.

While federal tax policy has generously dispensed tens of billions of dollars in tax expenditures annually to encourage employer sponsorship of private pensions, the returns are meager. Only one-third of private retirees receive any benefits from these plans. And unlike Social Security benefits, private pensions are not equally distributed across population subgroups. Only 23 percent of women retired from the private sector receive any pension income. Only 7 percent and 25 percent of the lowest and second income quintiles receive private pensions. This is reflected in the shockingly low average annual benefit levels for those groups: $123 and $616, respectively. The conclusion is inescapable without a strong, solvent Social Security program, tens of millions of today's and tomorrow's retirees will simply not be able to make ends meet.

The distributional inequities of the private pension system are likely to be exacerbated in the future by the ongoing shift by corporate America to defined contribution retirement plans. What we know thus far is that low-wage workers are the least likely to contribute to 401(k)-type savings plans, and that when they do contribute, it is typically a lower percentage of pay. Furthermore, there is evidence to suggest that these workers, when told to self-direct the investment of their accounts, opt for relatively conservative approaches that will yield considerably lower returns than would be produced by professional asset management. The end product may be fewer workers with even more meager benefits at retirement.

In contrast to the failure of current pension policy to establish retirement income security for average wage workers, our commitment to a national social insurance program has paid off handsomely. Social Security's success is unequivocally evidenced by the dramatic decline in hardship among the elderly over the last three decades: The period from 1965 to 1995 witnessed a three-fifths decline in the ratio of older Americans living below the poverty threshold (from 28.5 percent to 10.5 percent).

Ironically, it may be the program's unmatched success in delivering upon its promised benefits that has created an environment in which some are willing to consider radical proposals to replace Social Security with untested individual investment programs. I want to underscore that it is Social Security, not the other legs of the retirement income stool, that guarantees the well being of the elderly, the disabled, and their families. And of course, the economic risks that Social Security was designed to insure against retirement, death, and disability still are and will continue to be a part of Americans' lives.

The reason that we are here today discussing Social Security's future is the growing apprehension over the program's long-range financial outlook. Current concerns about the program arise out of the Social Security Trustees' annual look forward at the system's next 75 years. Based on the Trustees' most recent intermediate assumptions about the future, the program will have sufficient dedicated resources to meet all of its benefit obligations for the next 32 years, through 2029. Thereafter absent policy change, program revenue will cover roughly three-fourths of anticipated benefits.

Fortunately, the Trustees' projections enable us to anticipate funding shortfalls with substantial lead time. This gives us the opportunity to examine the Social Security system in order to develop recommendations to assure its solvency. The AFL–CIO believes that changes need to be made to ensure the future integrity of the system. The challenge, as we see it, is to avoid hastily-conceived fixes driven by the rhetoric of a near-term crisis that does not exist.

To this point, a broad range of proposals has been put forward to "reform" Social Security. These include the three packages endorsed by separate factions of the Social Security Advisory Council as well as other radical plans that would go far beyond dealing with the problem at hand securing the program's long-range financial balance and seek to supplant Social Security with completely unsecured privatized investment programs.

The AFL–CIO has not endorsed any of the proposals that have been made to date nor do we expect to. We intend to join with you and others in a careful effort to craft proposals that are designed to strengthen our nation's most successful social program. We believe that effort should be guided by certain core considerations.

The program must be mandatory. Social Security works because it has operated as a mandatory and near-universal program. These aspects of the current system have allowed its insurance-based features to be provided at extraordinarily low costs. Any reforms, to be successful over the long-term, must preserve these features and protect against efforts to erode them.

The program must guarantee that workers and their families can retire with dignity. As the statistical picture painted above indicates, Social Security plays a vital role in delivering retirement security to most Americans. This derives from the important character of Social Security as a system of earned benefits defined in law, and not a welfare program. It is essential that our national retirement system retain its risk-spreading elements that provide income adequacy in old age. We should resist proposals to carve the program up into separate defined benefit and defined contribution features, as well as suggestions that certain features of the current system, such as disability and survivor insurance can be provided for through separate income assistance programs.

It must be family based. Any reformed Social Security system must take into account the diverse needs of American families. Social Security plays a vital role in protecting families. Its benefit structure recognizes the importance of providing earned benefits not just to workers but to their spouses, children, and dependent parents. In addition to retired and disabled workers, the program counts millions of spouses and children among its beneficiaries. Too often, critics of the present system give little credit to this family-based benefits structure.

It should honor a lifetime of hard work, not just good fortune. Social Security was designed to serve as the foundation of retirement security for all American workers and their families. Its defined benefit structure reflects this intention, guaranteeing workers benefits based on their lifetimes of hard work, not good fortune in their work lives, their investment acumen or the ups and downs of the securities markets.

Any reformed Social Security program must recognize the needs of a heterogeneous workforce, particularly those groups who, without Social Security, would likely retire into poverty. They include lifetime low-wage workers, such as the 3.9 million poor families with children in which a parent works, who are likely to have few if any resources beyond Social Security when they reach the end of their work lives. In addition, the nation's basic retirement security program must take into account the large classes of workers who, before the end of their work lives, find themselves cast off by downsizing or dying companies and without marketable skills. Social Security should ameliorate the effects that these work patterns have on retirement security. Economic risks can and should be shared across the workforce through benefit mechanisms that are redistributional.

Proposals to put all or part of Social Security contributions into privatized, individual investment accounts would impose substantial risk on workers. A substantial portion of benefits would be dependent upon the individual worker's investment skill as well as the performance of the securities markets during the prime working years of any particular cohort. This is contrary to the very intent of Social Security to provide workers with a secure base of guaranteed benefits regardless of transitory economic conditions or the vagaries of the business cycle.

It must ensure that the old can not outlive their income. One of the most significant developments in the second half of the twentieth century is that people in industrialized countries are increasingly long lived. While this has contributed to the deterioration of Social Security's long-term financing outlook, it also reemphasizes the importance of its lifetime, inflation-adjusted benefits. As people live longer, there is a greater risk that they will outlive other sources of retirement income. This is already evident among the oldest of the old, who experience higher poverty rates than the total elderly population (13 percent versus 10.5 percent), and is particularly true among women ages 75 and over.

Social Security plays an increasingly important role in retirees' income as they age. According to the Social Security Administration, among the elderly ages 65–69, Social Security represents 31.3 percent of aggregate income. Among those ages 85 or older, it provides 56.5 percent. This is undoubtedly traceable to the dissipation of savings and decline in the real value of pension annuity benefits that occurs because so few pension plans provide for cost-living-adjustments to stem the erosion by inflation. Social Security's lifetime feature combined with the automatic benefit increases to counteract increases in the cost of living counter these effects.

Social Security has played a principal role in defining post-Depression America. It expresses a commonality of interest in protection for workers and their families against economic insecurity. This spirit and vision of America must not be lost.

Disclosure Statement: Neither the AFL–CIO nor David A. Smith received funds from the relevant statute(s) during this fiscal or the preceding two fiscal years.

Mr. BUNNING. Mr. Smith, thank you very much. Let me begin with just a brief period of questioning, I hope, since we've been here for a long time.

Doctor, in your proposal, personal retirement accounts would be funded through a mandatory additional contribution of 3 percent, split between employee and employer, 1.5 percent each.

What do you think the public reaction would be to our imposing, in essence, an additional 3 percent mandatory tax, even though they would have control over those moneys, knowing full well that presently approximately 78 percent of the people pay more in FICA tax than they do personal income tax?

Mr. MACLAURY. Well, Mr. Chairman, I think the key to the response is what you alluded to: these are personal funds that are at the discretion and disposal of the individual. It is like my father said to me, "Son, you must save for your retirement." I think that the time has come when we know that the Social Security system cannot and will not pay all the freight for the retired population. There has to be more savings, both personally and nationally. This is one way to bring that about.

Mr. BUNNING. But the retort is, "Son, you're already paying over 15 percent." You're paying 7½ plus and your employer is putting in another 7½ plus into a retirement account that guarantees you certain benefits.

Now, you're going to say that, by contributing an extra 3 percent, we are going to secure enough money to retire? We have a real problem funding the guaranteed benefits of the Social Security system now. The 3 percent I don't think would be enough to add on to that.

Mr. MACLAURY. We have a great problem funding the current benefits as projected. In fact, we cannot fund them, given the current tax levels, or benefit levels.

Mr. BUNNING. That's correct.

Mr. MACLAURY. Therefore, some adjustment must be made.

As I said, the CED is proposing that gradually the benefit levels be brought into line with what the current contributions through FICA will pay for. This is reality and we're going to have to face it. The citizens are going to have to face it, and individuals are going to have to face that sooner rather than later, I believe.

Now, why the extra 3 percent? Because the current system is so out of balance, that if you cut the benefits enough to bring them into balance alone, then the replacement ratios for income would fall substantially.

There is a chart on page 52, that shows the replacement ratios of incomes for low-wage earners on top, average earners, and maximum earners. You will see that currently the low earner has a replacement ratio, through Social Security alone, of around 60 percent. When he retires, he gets about 60 percent from Social Security of what he earned before retirement.

If you bring the current benefits into balance with the current payments, take a look at that dotted line. You'll see that for the low earner, that replacement ratio drops toward 50 percent. We feel that is not acceptable and, therefore, the upper line is Social Security plus the 3 percent——

Mr. BUNNING. More desirable.

Mr. MACLAURY. It's more desirable to sustain it. But you've got to pay for it. You do have to pay for it. If you want the higher replacement ratio——

Mr. BUNNING. I understand that. There ought to be a transition period where you guarantee benefits to certain people, in my opinion. Where you take an age group and you say, if you're younger than this age, we will set up a 3 percent or a 5 percent diversion of your FICA tax, and we will guarantee benefits for all over that certain age. But we have to have a 25- to 30-year transition period to do that.

Mr. MACLAURY. I couldn't agree more. And that is the nature of this proposal.

Mr. BUNNING. That solves a lot of problems that we have heard about, in trying to get a hold on this. There is no immediate need, but the planning for this has to be a long-term solution.

Mr. MACLAURY. For sure.

Mr. BUNNING. Go ahead, Barb.

Mrs. KENNELLY. Thank you, Mr. Chairman.

Dr. Smith, I was absolutely delighted to hear you say that the AFL–CIO has taken no position at this time. I commend you for that, because I have heard some others, who you probably know, who say they had taken positions.

This is our fifth hearing, and anyone who has listened to these hearings and prepared for these hearings knows that demographics don't lie. We have got to do something. If you say you're against, against, against, then you're not going to be a player. So the AFL–CIO, who I have great respect for, I'm delighted they are going to remain a player in this debate, which will go on because we've got to find a solution. I thank you and I'm delighted you're here today.

Dr. MacLaury, I like your plan. It's great. It increases savings, it balances the trust fund, and it gives a good return. No transition costs. It goes right down the line. The 3 percent is there. The public hue and cry is inevitable. But as I said to Dr. Smith, it's going to happen. Some people are going to be upset.

What I'm concerned about is here we are trying to help people who need this peace in their older years. I'm concerned maybe you're increasing the payroll on the very ones that need the money at the other end of the stream. Do you have any concern about that? Someone who is well off, they can find that extra money. But someone who is counting every penny may be in a bind. Is there any way we can deal with that?

Mr. MACLAURY. Well, it is absolutely correct, Mrs. Kennelly, that if you require an individual who is employed to save an extra 1½ percent that he is not saving today, and put that aside for savings for his or her retirement, it is a cost and it means less consumption today.

The question is, who is going to pay for the consumption of that individual 30 years from now, or 35 years from now, when he or she retires. We are saying it has to include that individual.

Yes, it is a sacrifice. It is particularly a sacrifice for the low-income individual. But note that with respect to the current Social Security plan, the defined benefit plan, we are suggesting that benefits be reduced in the future for upper and middle but not for the lowest income group.

Mrs. KENNELLY. So your plan is progressive, as our present system is?

Mr. MACLAURY. Very much so. In fact, it will be more progressive. It becomes more progressive in the sense that the benefits of the lowest income group are maintained, but those of the upper groups, the replacement ratios are going to decline.

Mrs. KENNELLY. I look forward to reading the whole plan.

Mr. MACLAURY. Thank you very much.

Mrs. KENNELLY. Mr. Macey, I read some of your testimony. I haven't had a chance to read it all. You praise ERISA for having done a number of things since 1974, vesting, the protection of pension rights and all the rest. I salute you for that.

What I don't understand, it seems to me that I heard somewhere that you are not in favor of—Senator Mosely Braun and I have a piece of legislation, which wants to provide the same protections to 401(k) plans. As we know, those are increasing in use, and the defined benefit plan is decreasing.

I would like to know why you don't think a 401(k) plan should have the same kinds of protections that a defined benefit plan has.

Mr. MACEY. I'm not sure—they do have a number of the protections, including the vesting provisions and the antidiscrimination provisions and things like that. All of those things already are required——

Mrs. KENNELLY. I'm talking about the one we worked very hard on, the one where your spouse has to sign before you can give away everything you've saved.

Mr. MACEY. The concerns involve a number of things. We have studied it, we have gone out and asked our membership who administer these programs, "would you have problems with this and, if so, can you talk to us about those problems."

We came up with a lot of administrative problems, many of which we detailed to members of your staff and other Members of Congress, and which we're pleased to discuss further.

Every time there's a mandate, or something changes, there's a lot of unknown repercussions. It's generally the private sector that has to deal with all of those repercussions.

What we would suggest in response to your concerns, and Senator Mosely Braun's concerns, is a study over the next 6 months or 1 year to evaluate the need for such a provision, and the impact of such a provision on the administration and design of these programs. In fact, we've gotten a lot of comments from the various people in the private sector, including many women, that say they don't want this because this is their money, that they're earning, all the women in the work force—and I think it's been styled——

Mrs. KENNELLY. I would love the statistics on that one.

Mr. MACEY. Pardon me?

Mrs. KENNELLY. I would love the statistics on that one.

Mr. MACEY. Well, a lot of it is anecdotal, quite frankly. I don't know that we have definitive statistics.

Mrs. KENNELLY. No, I've had companies bring in that one woman. [Laughter.]

Mr. MACEY. I'm sure we can bring in more than one.

Mrs. KENNELLY. The Chairman says I'm the only one that works there. I knew I was the only one that made that much.

Mr. MACEY. I think that people in the work force are saying, wait, that was taken out of my pay and that was my benefit that I developed.

But defined benefit plans are very much different from 401(k) plans. In defined benefit plans there is generally one event of distribution, at retirement. 401(k)s and defined contribution plans have many events of distribution. In fact, one employer I'm told has approximately 200–300 defined benefit events a year, and 17,000 401(k) distribution events a year. So when you start talking about loans and hardship distributions and other in-service distributions, just the full panoply of the way that people can take money out and the various events that people use their 401(k) benefits for, it does have very dramatic and significant administrative impacts on these plans.

We would urge you to pass something, if legislation is appropriate, that asks the relevant and expert Federal bodies, either the IRS or the DOL, to at least study the issue first before passing the legislation.

Mrs. KENNELLY. Mr. Macey, I apologize for my keeping smiling, but every time ERISA mentions there's a problem with administration, do you know the complaints we get about ERISA? That has caused many people across the country a great deal of heartburn with all the complications of ERISA.

As to administration, you already have to oversee the signature situation with the defined benefit plan.

Mr. MACEY. Yes, we do.

Mrs. KENNELLY. I would dare say, Mr. Chairman, if we got out testimony at the hearings when we wanted to do that, we would probably have heard very many of the same things that we're hearing today. Because when you think what you have to administer, what you have to administer is two signatures on a piece of paper.

Mr. MACEY. Well, yes, but the process for administering—in a defined benefit plan, actually there is an automatic default. If you don't get the signature, you pay a lifetime joint and survivor annuity, if the individual is married. In a 401(k) plan, under the proposal you either can't pay the benefit out at all if you don't get the signature, or you have to establish some type of survivor or other types of lifetime or durational annuity process, which are actually inimicable and not set up under the 401(k) and other types of defined contributions plans now.

Most 401(k) plans either provide for free access to the money upon certain events—and you can take a little or you can take a lot, you can take whatever you want—or they provide for lump sum distributions and rollovers to IRAs or other types of plans.

Forgetting the merits, whether or not there is social or other type of merit to your proposal, just the impact of it and the need to change all types of detailed computerized and other types of systems, administrative systems, we would just urge you to have a study on it.

Mrs. KENNELLY. The Chairman is getting itchy because he's been here a lot longer than I have been. So you and I will continue at a later time.

Mr. MACEY. We would love to talk to you.

Mrs. KENNELLY. I know we will continue this conversation.

Before I end on this subject, that woman who says "it's mine," is just like the man who said "it's mine," when we had to get that other signature on defined contribution plans. When you have two people, married, saving for their future—I know he wants me to hurry up—but there is all that that we have to think about. I just find this whole thing very interesting.

Before we end, Mr. Macey, let me talk to you about one other thing that we've also had some talks about. You keep talking about the fact that if we reduce Social Security benefits, then, in fact, this could be a problem in relation to pensions and Social Security benefits.

As you know, in 1986, it was my intention to make sure there was no integration. We wouldn't have this problem today. We wouldn't have to even be thinking about it. But hearing your testimony. I hope you're not saying that if Social Security benefits get reduced because we have to change due to the need for increased dollars, that you would think then that employees' pensions should also be reduced? If you reduce the benefits, then the employees' obligations have to be reduced?

Mr. MACEY. I'm saying essentially we start out with an assumption that it's a zero-sum game. There's a limited amount of societal and country resources to apply toward retirement.

If one system that has a close interrelationship with another system—and the public system has a close interrelationship with the private system—and if one system is changed to either reduce benefits, to require people to wait longer for those benefits, or to attack the concept of pension integration with Social Security directly or indirectly, that will necessarily have an impact on the private system. Private employers who are supporting a multitrillion dollar system and supporting half of Social Security only have so many resources to put toward retirement.

With a healthy economy, presumably we can grow this and people can achieve societal and individual security.

Mrs. KENNELLY. I'm glad I heard that testimony because it shows that I should continue to work toward getting rid of integration, and certainly beware that we don't go back to pre-1986. So I'm glad I heard your testimony on that.

Mr. MACEY. Well, we would take issue with getting rid of integration. We don't think that that's the way to go.

Mrs. KENNELLY. We could go on all day.

Thank you very much.

Mr. MACEY. We would love to meet with you separately and discuss some of these issues.

Mr. BUNNING. I have at least five questions for each of you, but I'm not going to ask them. I'm going to submit them in writing to you, and I would appreciate a written response, if that is not asking too much.

We appreciate your participation in the panel. We will have some more hearings on this very important problem, as we see it. The Subcommittee is adjourned.

[Whereupon, at 3:45 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Statement of Hon. John Edward Porter, a Representative in Congress from the State of Illinois

Mr. Chairman, the debate about whether to reform Social Security should be declared over. The conclusions reached by innumerable studies and commissions are unambiguous—our system is flawed and now is the time to fix it.

As many on the Committee are aware, I've been working on Social Security reform issues since the early 1980s. In the past I have authored legislation that would change current policies regarding the management of the Social Security Trust Fund reserve in order to preserve benefits for current and future retirees. I've introduced legislation that would create Individual Social Security Retirement Accounts (ISSRAs) by placing annual Social Security Trust Fund surpluses under the control of individual workers in restricted accounts similar to Individual Retirement Accounts (IRAs).

I have been working on this plan ever since, and I am continuing my legislative efforts by incorporating recommendations for Social Security Reform written by the well known economist Peter Ferrara.

Accordingly, I will be introducing new ISSRA legislation in this session of Congress that will create a vastly more profitable Social Security option for all Americans.

THE PORTER ISSRA PLAN

My reform plan is based on three fundamental tenets. First, the plan would guarantee all current retirees the continuation of their current benefits with no reductions of any kind. Second, current workers would be given the option of staying in the current system, or opting out into a new private system utilizing ISSRAs. Third, no new taxes would be levied to finance the transition, and tax cuts would ultimately be available to those who opted out of the traditional system.

For those who choose to utilize the private plan, Social Security taxes (currently consisting of 12.4% of wages equally paid by the worker and employer), would be redistributed. Under the Porter ISSRA plan, workers and employers would each contribute five percent of wages to an ISSRA. The remaining 2.4% of wages currently paid as payroll tax would continue to fund the on-going Social Security Trust Fund, but could be eliminated in 10 years resulting in a 20% payroll tax cut. Current workers who opt out of the traditional Social Security system would receive recognition bonds from the federal government that would pay a portion of their eventual Social Security benefits based on the proportion of lifetime payroll taxes that they had paid.

My ISSRA plan applies the same rules currently utilized for IRA account to the management of ISSRAs, with the exception of the right to withdrawal. All workers choosing the private option could choose from among approved private investment companies. This safeguard would make the system easy to use, and protect unsophisticated investors from potential fraud and abuse.

Like the current system, employee contributions to ISSRA accounts would not be tax deductible, while employer contributions would remain deductible. Investment returns over the years would be tax free until withdrawal, in a manner identical to today's IRAs. During retirement, only half of the benefits would be included in taxable income.

Benefits at retirement would be based on what the individuals ISSRA account could support. The worker could choose to purchase an annuity or make periodic withdrawals in such a manner that the account would not become exhausted within the beneficiary's lifetime. Retirement age for individuals choosing to utilize an ISSRA would be variable after age 59 and one-half, based on funds available in their account.

As a safeguard, a minimum benefit would be guaranteed for all individuals assuring that no worker would fall below the minimum necessary for a dignified retirement. This benefit would supplement an individual's shortfall in private benefits and would be financed from general revenues and the eventual surplus in the Social Security Trust Fund.

TRANSITION COSTS

Up until now, the costs associated with the implementation of a private Social Security system like my ISSRA plan were thought to be too severe to be addressed through reasonable measures. However, projections of the fiscal impact of this plan, as detailed by Mr. Ferrara, demonstrate that the transition can be financed without new taxes or benefit cuts for current retirees. According to his analysis, transition deficits would disappear within 14 years, after which a surplus would be generated by this plan.

Under my plan, transition costs are accommodated through a number of ways. The first would be the displacement of Social Security benefits as workers choose the private system. Although starting slowly, these savings will grow substantially over time. An immediate saving would be realized by transferring responsibility for the disability and pre-retirement benefits of all individuals who opt out to private disability and life insurance carriers. Rather than using Social Security funds, these benefits would be accommodated by the private marketplace through Treasury Department approved ISSRA fund managers. These savings would be immediate.

Further savings would result from the waiver of past tax payments. Recognition bonds will be waived for individuals under the age of 30 who choose to utilize the new ISSRAs, and the Social Security Trust Fund will not be expended for their retirement benefits.

Several sources of revenue would also be available to finance the transition. The continuing payroll tax of 2.4% for workers opting out of traditional Social Security would continue to be credited to the Trust Fund for a period of ten years. This revenue, plus the sale of a new issue of "Social Security Trust Fund Bonds" would finance the majority of transition costs.

RESULTS

The net effect of these measures would be a Social Security Trust Fund with net revenues in a dozen years and a large positive balance after 20 years. Eventually these surpluses would grow large enough to cover losses in revenue from a 20% payroll tax cut, balance the budget and reduce the national debt.

At the same time, benefits for individuals would grow substantially. The working poor would experience the largest gains in retirement benefits under my plan. An individual working for minimum wage would receive more than three times the benefits promised by our current system, and have the ability to leave substantial funds to their heirs thereby breaking the cycle of poverty.

Not directly accounted for in my plan, but substantially aiding the federal government in meeting transition costs would be the generation of substantial new revenues as a result of new savings and investment in the private system. The net increased savings resulting from the implementation of my ISSRA plan would also lead to significanjobs.

Mr. Chairman, in my judgment, the time is now for Social Security reform. We are on the verge of balancing the federal budget for the first time since 1969 and I believe that it would be a clear abdication of our responsibilities if we do not seize this historic moment to implement a lasting reform of Social Security. I offer the Porter ISSRA plan as a positive way to do so.

I thank the Subcommittee for its time.

Statement of Hon. Harry Reid, a U.S. Senator from the State of Nevada

Chairman Bunning, and distinguished Ranking Member Kennelly, I am pleased to respond to your offer to provide testimony to the Subcommittee on Social Security for inclusion in the record regarding the hearing held on July 10, 1997 addressing "The Future of Social Security for this Generation and the Next." I appreciate the opportunity to share my views on this very important topic.

Social Security is the most successful social program the world has ever seen. Nearly 230,000 Nevadans receive Social Security benefits each month. This includes 16,000 children, 154,000 retired workers, 22,000 widows and widowers, 14,000 spouses and 23,000 disabled workers.

When President Roosevelt signed this momentous legislation into law on August 14, 1935, he said that Social Security would "give some measure of protection to the average citizen and to his family against the loss of a job and against a poverty-ridden old age." Today, thanks to his actions, less than eleven percent of seniors live in poverty.

When one realizes that two out of every three seniors rely on Social Security for more than half their income, it is easy to understand why we must do everything we can to preserve and protect this program. That is why I have fought so hard over the years to pass a balanced budget amendment which exempts the Social Security Trust Fund. The last thing we need to do is give Congress the power to permanently raid the Social Security Trust Fund.

Contrary to what the swarm of Chicken Little articles which have appeared on the opinion pages of newspapers lately would have you believe, the sky is not falling on the Social Security system and the future of this fundamental American program is not facing immediate danger.

Right now, the Social Security Trust Funds are not scheduled to run out until the year 2029. After that date, if we do nothing, beneficiaries will still receive almost 80 percent of their benefits through revenue on current payroll taxes. Obviously, we must make some changes to the system to meet the needs of the retiring Baby Boomers generation. Granted the system needs adjustments, but let's try to treat the symptoms before we start hacking off its limbs. We still have time to make thoughtful, careful, and incremental changes.

I am deeply concerned that all this doomsday rhetoric about the need for immediate privatization of the Social Security system and radical reform is nothing more than a front for those who want to dismantle the program completely for their own financial gain.

Privatization of a portion of the Social Security trust funds may be part of the answer to preserving its long term solvency but it is not the only answer. This should be studied before we make a decision. First we must consider who would benefit from such a move. Is our first concern putting enormous commission fees in the pockets of Wall Street bankers and mutual fund partners or is it average workers, who barely have enough time to read to their kids at night, much less look at stock tables and calculate their maximum returns.

If we were to move immediately to privatize Social Security, what is to happen to a worker if he or she should suddenly become disabled, like the 4.2 million disabled workers nationwide, before their "nest eggs" were allowed to build up? What would happen to the 3.8 million children in this country who currently receive benefits as a result of the death of one of their parents? Let us not forget that 20 percent of today's young workers die and 30 percent will become disabled before they reach retirement age.

While I believe that there may be room for partial investment of the Social Security funds in the equity market, along the lines of pension funds and 401K plans, I would caution those who advocate for complete privatization, that markets are volatile and what is up today may be down tommorrow. Indeed, I shudder to think what could occur if a long term recession or depression were to hit.

Not everyone has the experience or investment savvy to play the markets and win. In fact, I believe many seniors could and would lose their retirement security either due to a flux in the market or because they were swindled by a scourge of unscrupluous investors, who would prey upon them, much as they are being preyed upon today by illegal telemarketers and mail order scam artists.

Social Security was designed to be a social insurance plan. It was never intended to be merely a finacial investment. It is misleading to frame any debate regarding the future of this program in terms of bottom line profits and maximizing returns.

Social Security promotes our national community. It is the thread that binds each generation to the next and it is a thread well worth protecting, especially in a society where so much is done to separate the young and the old instead of promoting their integration and interdependence.

Those seeking to dismantle Social Security oftentimes try to stir up fear in the younger generations that "greedy seniors" are eating up all their hard earned benefits. This kind of divisiveness will only hurt our nation. There is something very right about each generation working together to protect the generation of seniors who have given so much to our society.

We have seen during times of trouble in this nation—war, depression, recession—the progress which can come when we all work together for the common good of our society. Let us all now pull together to mend our Social Security system. It is truly a system worth saving.

Statement of Hon. James T. Walsh, a Representative from the State of New York

Mr. Chairman: Social Security is the federal program with which most Americans identify as what is good about the U.S. Government.

From the time it was instituted it has become a symbol of America. Far beyond the value of what is received in dollars, the ocial Security Trust Fund represents to a generation of Americans the government's ultimate safety net.

The Social Security Trust Fund is threatened and we must protect it. Americans who have contributed to the Trust Fund during their working years must be secure in the knowledge that their benefits will be available to them upon retirement.

Simply stated, the Trust Fund is going broke. The actuarial tables demonstrate clearly that there is more going out than coming in. The full faith and credit of the U.S. Government is at stake. If we cannot honor obligations to our elderly citizens, we will damage our reputation far beyond our borders. More importantly, as has been often said, Social Security is a sacred trust.

Congress faced similar difficulties in 1983. Paying heed to economists who foresaw a problem, Congress reformed Social Security and guaranteed its existence for perhaps 20 years. We must take action now to make sure the program survives the turn of a new century. We need to pay serious attention today because our task is even more challenging than that of our predecessors.

The "baby boom" generation, to which many of us belong, will present the federal government with a huge liability when its members start to retire. The claims on Social Security must not be allowed to bring the system down.

The Commission has made suggestions and we need to look at them very seriously—as we need to consider the advice and suggestions of any other respectable authorities on the subject.

My father was a memer of the U.S. House of Representatives during that period when adjustments were made to keep Social Security alive. It was a great accomplishment, of which he is very proud.

It is my fervent desire that I will be able to tell my children, as my father told me, that I did take action to keep the Social Security Trust Fund intact—not only because our nation must always keep its word, but because the impact on the lives of so many Americans is so great.

Thank you.