Persons (AARP); Harvey M. Meyerhoff, member, board of directors, Concord Coalition; and Carolyn J. Lukensmeyer, executive director, Americans Discuss Social Security.

Teleconference Remarks From Albuquerque to Regional Social Security Forums

July 27, 1998

The President. Thank you, Ken. First of all, let me say I'd like to thank the Older Women's League, who are watching in Chicago; Congressman Mike Castle of Delaware and his group; Congressman Earl Pomeroy of North Dakota, who's had such a leading role in this effort, and his group; and Congressman David Price of North Carolina. I thank you all for hosting this forum.

Our economy is the strongest it's been in a generation. We have the lowest unemployment rate in 28 years, the lowest crime rate in 25 years, the lowest percentage of our people on welfare in 29 years, the first balanced budget and surplus in 29 years, the lowest inflation rate in 32 years, the highest homeownership in history, and the smallest National Government in 35 years. But this sunlit moment is not a time to rest. Instead, it offers us a rare opportunity to prepare our Nation for the challenges ahead. And one of our greatest challenges is to strengthen Social Security for the 21st century.

As you know, I believe strongly that we must set aside every penny of any budget surplus until we have saved Social Security first. Fiscal responsibility gave us our strong economy. Fiscal irresponsibility would put it at risk. On whether we save Social Security first, I will not be moved. But on how we save Social Security, that will require us to have open minds and generous spirits. It will require listening and learning and looking for the best ideas wherever they may be. We simply must put progress ahead of partisanship.

The stakes couldn't be higher. For 60 years, Social Security has reflected our deepest values, the duties we owe to our parents, to each other, and to our children. Today, 44 million Americans depend upon Social Security. For two-thirds of our seniors, it is the main source of income. And nearly one in three beneficiaries are not retirees, for Social Security is also a life insurance policy and a disability policy, along with being a rock-solid guarantee of support in old age.

Today, Social Security is sound, but a demographic crisis is looming. By 2030, there will be twice as many elderly as there are today, with only two people working for every person drawing Social Security. After 2032, contributions from payroll taxes will only cover 75 cents on the dollar of current benefits. So we must act and act now to save Social Security.

How should we judge any comprehensive proposals to do this? I will judge them by five principles.

First, I believe we must reform Social Security in a way that strengthens and protects a guarantee for the 21st century. We shouldn't abandon a basic program that has been one of America's greatest successes.

Second, we should maintain universality and fairness. For a half century, this has been a progressive guarantee for our citizens. We have to keep it that way.

Third, Social Security must provide a benefit people can count on. Regardless of the ups and downs of the economy or the gyrations of the financial markets, we have to provide a solid and dependable foundation for retirement security.

Fourth, Social Security must continue to provide financial security for disabled and low-income beneficiaries. We can never forget that one in three Social Security beneficiaries are not retirees.

And fifth, anything we do to strengthen Social Security now must maintain our hard-won fiscal discipline. It is the source of much of the prosperity we enjoy today.

Now, all this will require us to plan for the future, to consider new ideas, to engage in what President Roosevelt called "bold, persistent experimentation." I thank you for doing your part and for participating in this important national effort to save Social Security.

Now I'd like to hear from all of you. I guess we should start with Betty Lee Ongley of the Older Women's League in Chicago. Then we'll go on to Representative Mike Castle in Wilmington, Delaware; then to Representative Earl Pomeroy in Bismarck, North Dakota; and then to Representative David Price in Raleigh, North Carolina. So let's begin.

[*At this point, the regional discussion proceeded.*]

The President. Thank you. I'll be glad to comment on that. Let's go now to Congressman Pomeroy in North Dakota. And again let me thank you all for the leading role you've played in this right from the beginning and for your efforts to increase retirement benefits generally for seniors.

[*The regional discussion continued.*]

The President. Well, first of all, let me say that we're having this forum today in Albuquerque, New Mexico, with a number of experts whose opinions range across the spectrum, from believing that we should have a large portion—some believe almost half of the present payroll tax—converted over a period of 20 or 25 years into individual investment accounts, to those who believe maybe you should have a small percentage of payroll tax or a small annual payment to people for individual investment accounts, to those who believe that the Social Security Trust Fund itself should invest, beginning with a modest amount, a limited amount of its funds to increase the rate of return. So let me try to answer all these questions.

Let me begin by going back to Betty Lee Ongley's question about the impact on women. First of all, I think it's quite important that we maintain in the Social Security system the life insurance benefits. Because so many women are the primary home raisers of their children, even if they're in the work force, I think maintaining this life insurance benefit for the children when the wage earner is killed or disabled is terribly important. And that is, I think, a very important thing.

Now, the second thing I would say is, I personally believe we're going to have to do some things beyond the Social Security system to help women to deal with the fact that they live longer and that today their earnings base is not as great because they're out of the work force for an average of 11 years.

On the question of getting pay up, I think that there is legislation in Congress that would deal with the equal pay issue, which would solve some of the other problems. And I would like to see more aggressive work done on that, to do even more work to enforce the equal pay requirements of our law for women. So, if I could just leave that there.

Now, let me move into the questions raised by the other people who called. And I want to give Ken Apfel a chance to talk, especially if I make a technical mistake.

In various ways, you all asked the same questions about the private accounts. First of all, let's back up and realize why we're dealing with this. By 2030, there will be only two people working for every one person drawing Social Security. The average rate of return on the investment any worker makes on Social Security will go down as more people live longer and more people are in the retirement fund, because Government securities, while they're 100 percent certain, don't have a particularly high rate of return, like any kind of 100 percent certain investment.

So the question is then raised, well, if—over any 30- or 40-year period, an investment portfolio that, let's say, was 60 percent in stocks and 40 percent in government bonds, or 40 and 60 the other way, would have an average rate of return far higher. And even after you take account of the stock market going down and maybe staying down for a few years, shouldn't we consider investing some of this money, because otherwise we'll have to either cut benefits or raise taxes to cover them, if we can't raise the rate of return. So—and I think those are the three main options.

And younger people especially, many of whom are used to doing things on their own, accessing information over the Internet, and also have only experienced a growing stock market, which has been growing since 1980 and which since 1993 has virtually tripled, have been especially interested in these individual accounts. So let me just try to deal with these issues.

First of all, what about individual accounts, and how could we set them up? There are, I think, basically two basic options that have been advanced. One is, should we take a one percent or 2 percent, or some percentage of the payroll tax and, instead of putting that into Social Security, put it into a mandatory savings account for workers, and then they can invest it in stocks if they like? What's the downside of that? The downside of that is twofold. Basically, your investments might lose money, and you might not be so well off with them when you retire, so that the combination of your investment fund plus your guaranteed Social Security fund might be smaller than would have otherwise been the case.

The second issue that's related to that is that if individuals are investing like this, the administrative costs of managing it can be quite high, much, much higher than Social Security, so that even though you might earn a higher rate of return, a lot of it would be taken right back from the people who are handling your account. So we have to work through that.

What about having the Government do it? What about having everybody have an account, a number, in effect, attached to their name for this money but having some public source invest this money? Congressman Castle asked a question, as well as Congressman Price, and I think Mr. Weber in North Dakota asked this question.

Now, the virtue of that is that if the Government were making these investments, you could do two things. Number one, you'd have much lower administrative costs. Number two, you could protect people who retire in the bad years, because you would average the benefits. And as I said, as we know, over any 30- or 40-year period—and the average person will work 40 years—the average rate of returns are higher. So you could always reap the average rate of return.

Now, if you were a particularly brilliant investor, you'd get less than you would have if you'd done it on your own. But on the other hand, you wouldn't get burned. And if you happen to be among unfortunate people who retired in a long period where the market wasn't doing well, like it was in between 1966 and 1982, you'd still be held harmless for that because of the overall performance of the market.

People worry about having the Government invest that much money. There may be a way to set up an independent board immunized from political pressure to do it, but still, that would be a whole lot of money coming from, in effect, one source, going into the stock market. So we're looking at the experience of Canada and some other countries to see what we can learn about that. And we're also looking at the experience of Chile, as a place where they've used individual accounts, to see what the pluses and minuses are.

I think—what I would like to say is, if we go down this road, we need to make sure that behind this there's still a rock-solid guarantee of a threshold retirement that people will be able to survive on. And then we can debate the relative merits of these individual accounts versus individual guarantees within these bigger units. But I think I've given you the main arguments, pro and con, of both the individual accounts and the Government units—Government investment—I'm sorry.

Let me just add one thing, if I might, because I think it was Mr. Weber who talked about a lot of—either that or Congressman Pomeroy talked about a lot of the people in North Dakota that depend upon Social Security have very modest incomes from the farm or from other sources. One kind of modified proposal that has been debated is the question of whether, instead of dedicating a percentage of payroll to an individual account, we should use the surpluses over the next several years to guarantee workers, let's say, $500 a year.

If you did that, obviously, as a percentage of income—and that would amount to quite a bit after a few years of getting that $500 check in an investment account—obviously, as a percentage of income, the impact on lower wage workers would be far greater than the impact on higher income workers, because the $500, and then the 1,000 and then the 1,500 and 2,000 and so on, would be a much bigger percentage of a lower wage worker's income than just giving everybody one percent of payroll so the dollars would be much bigger if your payroll was bigger.

So that's another thing we've been asked to consider by various people, whether or not the fairest way to do it would be to just give a cash grant into the account of each Social Security-covered person who is paying in. And that's also being debated. And you all may have an opinion about that you want to forward to us.

[*The regional discussion continued.*]

The President. I would also emphasize—and again, I don't want to further complicate this discussion, but I believe we have to do two things. I think we have to reform Social Security in a way that makes it viable and available for the baby boom generation when all of us get into retirement age, and it doesn't bankrupt our children or our children's ability to raise our grandchildren.

But over and above that, we have to do some other things, which a number of the Members of Congress who are here in New Mexico and out there at these forums have been interested in, to increase the options for retirement savings beyond Social Security. Right now, Social Security is responsible for lifting about half the American senior population out of poverty who would be in poverty without it.

But most seniors do not rely solely on Social Security. And more and more seniors, as we live longer, will need other sources of income, as well. So we're going to work hard on this, but we're also working on legislation to provide other avenues of retirement savings over and above this.

Thank you very much, all of you, for joining us. Commissioner Apfel and I are going to go back to work here in Albuquerque, and we're going to try to listen to the arguments of these experts on the questions you've asked: Should the Government invest in private securities, in the stock market, or should Social Security funds be invested in the stock market? And if so, should it be done by a public entity, or should it be done by individuals with individual accounts? And we'll try to get the pros and cons out and make sure they're widely publicized, and we welcome your views, as well.

Thank you.

NOTE: The President spoke at 11:35 a.m. by satellite from Room 124 of the Johnson Center Gymnasium, University of New Mexico, to regional forums meeting in Chicago, IL; Wilmington, DE; Bismarck, ND; and Raleigh, NC. In his remarks, he referred to Commissioner of Social Security Kenneth S. Apfel; Betty Lee Ongley, president, Older Women's League; and Richard Weber, vice president of administrative services, Basin Electric Power Cooperative.

Remarks in a National Social Security Forum Townhall Meeting in Albuquerque
July 27, 1998

[*Moderator Gloria Borger, U.S. News and World Report, explained that she would take questions from the audience but first wanted the President to comment on a USA Today poll in which two-thirds of the voters liked the idea of private investment accounts, but most also did not want the Government investing their money for them.*]

The President. Well, I think there are a couple of explanations. First of all, we live in a time where people are using technology to become more and more self-sufficient and to get more and more information directly. I mean, the Internet is the fastest growing communications organism in human history. So I think that. Secondly, I think there's always been a healthy skepticism of Government. And thirdly, the Government hasn't been in very great favor over the last 17 or 18 years, although it's doing better now than it was a few years ago. Now, I think—in public esteem—all the surveys also show that.

I think the real question is, from my point of view, we ought to get down to the merits of this. The first question you have to ask yourself is, should a portion of the Social Security tax funds go into securities, into stocks? And if they should go into stocks or into corporate bonds, should that decision be made according to individual accounts, or should they be invested en masse either by the Government or by some sort of nonprofit, nonpolitical corporation set up to handle this?

And I think there are genuine concerns. For example, if the Government did it and they invested the money in stocks, would private retirement funds just have to make up the difference by buying Government bonds, or would there be no aggregate increase in saving or investment in the country? Would it give the Government too much influence over any company or any sector of our economy?

But I think most people just think, "If there is going to be a risk taken, I'd rather take it than have the Government take it for me." I don't think it's very complicated, so I think that those who believe that it's safer and better for people to have the public do the investing—