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LISTEN TO AMERICANS' VIEWS ON THE FUTURE OF SOCIAL SECURITY

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

JUNE 18, 2001

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1:00 p.m. Welcome and Overview

Subcommittee Member opening statements, Chairman Shaw and Mr. Hulshof. Introduction of Facilitator, Skip Walther, Attorney, Walther, Antel & Stamper, P.C., Columbia, Missouri, and Independent Expert, Ron Gebhardtsbauer, Senior Pension Fellow, American Society of Pension Actuaries.

1:15 p.m. Social Security Quiz

Facilitator will share quiz answers, call on participant volunteers to share their responses, and hear audience comments. Any technical questions will be deferred to the Expert for response during his presentation.

1:30 p.m. Retirement Security: Ensuring Your Financial Future

1:30–2:15 p.m. Expert will present overview of the Social Security program and it's financial challenges, followed by questions and answers from the audience, led by the Facilitator.

2:15–3:00 p.m. Expert will present options for Social Security reform, followed by questions and answers from the audience, led by the Facilitator.

3:00 p.m. Be a Legislator

3:00–3:30 p.m. Expert will explain the "Be a Legislator" exercise. Participants will debate in groups and develop a legislative proposal of their own.

3:30–3:50 p.m. Facilitator will ask representatives from selected groups to present their conclusions and explain the challenges they faced in reaching a conclusion.

3:50 p.m. Concluding Remarks

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LISTEN TO AMERICANS' VIEWS ON THE FUTURE OF SOCIAL SECURITY

MONDAY, JUNE 18, 2001

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON SOCIAL SECURITY,
Columbia, Missouri

The Subcommittee met, pursuant to notice, at 1:18 p.m., in the Reynolds Alumni Center, University of Missouri, Columbia, Missouri, Hon. E. Clay Shaw, Jr. (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
June 11, 2001
No. SS–5

CONTACT: (202) 225–9263

Shaw Announces Field Hearing to Listen to Americans' Views on the Future of Social Security

Congressman E. Clay Shaw, Jr. (R–FL), Chairman, Subcommittee on Social Security of the Committee on Ways and Means, today announced that the Subcommittee will hold a field hearing to listen to Americans' views on the future of Social Security. **The hearing will take place on Monday, June 18, 2001, at the Reynolds Alumni Center at the University of Missouri in Columbia, Missouri, beginning at 1:00 p.m.**

The format of the hearing is intended to evoke the highest audience participation. Through the use of a facilitator and independent expert, members of the public attending will be given the opportunity to ask questions, provide comments, and share their views on how Social Security should be reformed.

BACKGROUND:

Social Security programs have provided income security to America's families for almost two-thirds of a century and has been enormously successful in reducing poverty among the nation's elderly. However, Social Security is important to people of all ages, not just retirees. Eighty percent of workers ages 21–64 and their families have protection in the event of a long-term disability. Ninety-eight percent of young children and their mothers and fathers are insured for Social Security survivor benefits if a worker in the family dies.

The benefits Social Security provides to all generations depend upon the hard-earned payroll taxes paid by workers of all ages. Social Security operates primarily on a pay-as-you-go basis. Income from payroll taxes and taxes on benefits are used to pay the benefits of today's retirees and other beneficiaries. Since the early 1980's, Social Security has collected more taxes than immediately needed to pay benefits. The surplus revenue is credited to the Social Security Trust Funds in the form of interest-bearing Treasury securities and will eventually be used to pay future benefits.

Social Security faces increasing hurdles in paying promised benefits in the coming years due to the nation's changing demographics. By 2030, there will be twice as many older Americans as there are today—growing from 35 million to 70 million. In addition, people are living longer and having fewer children. As a result, the ratio of workers to beneficiaries has declined from 42 workers per beneficiary when the program began to 3.4 workers per beneficiary today and is expected to decline to less than 2 workers per beneficiary by 2075.

Social Security's trustees estimate cash revenues will fall short of expenditures beginning in 2016. At that point, the Trust Fund balances can be cashed in to make up the difference. To cash them in, the government will have to raise taxes, borrow from the public (i.e., increase the debt), cut other budget priorities, or use any avail-

able budget surplus. Beginning in 2038, the Trust Funds will be depleted, and Social Security tax revenues will only cover 73 percent of program costs.

The President has established a commission that will make recommendations for restoring fiscal soundness to the Social Security system, to include the creation of voluntary individual accounts. Congress has also considered numerous Social Security reform plans over the years. However, many Americans may not be aware of the range of options for strengthening Social Security or of the effect that individual accounts or other programmatic changes would have on different groups of people.

In announcing the hearing, Chairman Shaw stated: "Americans need to understand the various reform options, along with their implications, and have an opportunity to express their views on how best to strengthen Social Security. I'm pleased the University of Missouri—Columbia, is hosting this hearing—we must hear from our young citizens in this debate as it is their lives which will be most impacted by changes to the system. Social Security's future is their future. Moreover, they will bear the burden should we fail to act."

FOCUS OF THE HEARING:

The hearing will focus on frequently discussed options for modernizing Social Security (including changes in benefits, taxes, and personal accounts), and seek participants' views on how to improve the program's financing in the long term.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should *submit six (6) single-spaced copies of their statement, along with an IBM compatible 3.5-inch diskette in WordPerfect or MS Word format only, with their name, address, and hearing date noted on a label*, by the close of business, Monday, July 2, 2001, to Allison Giles, 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, c/o Office of Congressman Kenny C. Hulshof, 33 E Broadway, Suite 280, Columbia, MO 65203, by close of business on Friday, June 15, 2001.

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 submitted on an IBM compatible 3.5-inch diskette in WordPerfect or MS Word format, typed in single space and may not exceed a total of 10 pages including attachments. **Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.**

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, company, address, telephone and fax numbers where the witness or the designated representative may be reached. 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.

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.

Chairman SHAW. We will call this hearing to order and recognize the gentleman from Missouri, Mr. Hulshof, for an opening statement.

Mr. HULSHOF. Thank you, Mr. Chairman. Would you prefer we do this at the seat or at the podium?

Good afternoon, ladies and gentlemen, and welcome. Welcome to this event and let me—especially those of you who are not from this area, we welcome you, especially you, Mr. Chairman. Mr. Gebhardtsbauer, we appreciate you being here as well.

My name is Kenny Hulshof, it is an honor to serve on the Social Security Subcommittee as part of the Ways and Means Committee. I am pleased that today we will have this opportunity to hear our community's thoughts on the long-term challenges that face Social Security. I think this is a great opportunity for us and I appreciate you all having taken some time out of your busy schedules to be here today. I appreciate the University of Missouri hosting us here today and in a moment, I will introduce our facilitator and moderator, Skip Walther. Skip, thank you in advance for your willingness to be here and help make this a success.

I think one thing, if we started from points of agreement, I think all of us in this room, regardless of our age, regardless of our political ideology, would agree that Social Security has been one of the most successful programs ever administered by the Federal Government. Prior to Social Security's inception, as one grew older, one did not necessarily look forward to one's golden years. Most of our nation's senior citizens back at that time lived in poverty. The dramatic improvement in quality of life for older Americans since the creation of Social Security I think is a testament to the effectiveness of that program.

Social Security's trustees, they come to Congress every year, they provide us sort of a snapshot of time and sort of monitoring the progress of how Social Security has been doing. Most recently, their report was some good news on the financial status of the program. And yet I think again, a majority of us in the room would say that that news, short-term news, is good, but when you look at the long-term, especially as far as the challenges that are ahead of us, that this good news trend may not continue forever. When you look at the demographic realities, the fact that we have the retirement of the baby boomer generation with the blessing of longer life expectancies—we are living longer, that is great news, but when you combine that with fewer workers in the workplace that are paying payroll taxes—those workers per Social Security retiree is getting smaller and as a result of that, it really is putting the program in a strain.

It is projected, as our Chairman talks about frequently, that beginning in the year 2016, the Social Security trust fund will begin

to post deficits. In other words, the payroll taxes that we collect will be insufficient to cover the checks going out. That is by the year 2016. By the year 2038, Social Security will be unable to meet the obligations that it has made to workers who are currently paying payroll taxes into the system.

As we know, this is not a pre-funded system, it is not like a private pension plan. It is in fact a pay-as-you-go system where payroll taxes of current workers are used to finance the benefits of current retirees, just as when those current retirees were in the workforce, their payroll taxes were going to pay for the benefits of those ahead of them.

Since the administration of President Lyndon Johnson, revenues from the Social Security payroll taxes had been included in the overall Federal budget. In other words, we were—Congress was borrowing from the so-called Social Security trust fund to meet other obligations of the Federal government. Essentially the Social Security trust fund is an accounting device filled with special government IOUs that track income and distributions from the program. And under this structure, future funding shortfalls threaten not only the Social Security benefits upon which seniors depend, but other Federal programs that are vital to our Nation's interest. In other words, failure to begin the process of reforming the most successful social program in the history of our Nation would be akin to burying one's head in the sand.

Under the guidance of Chairman Clay Shaw, who I will get to introduce here momentarily, the Social Security Subcommittee has held a number of hearings on the challenges facing Social Security. Those hearings have most often been in our nation's capital. We have had witnesses with all different points of view that have come before us and talked about their priorities or options that they would consider. We have heard from respected experts on all points of the political view, all points on the ideological spectrum.

The one point that I think all of those experts who talked to us in Washington would agree upon is that Congress and the President should act sooner rather than later to address Social Security's long-term solvency problems. The longer we wait, the more difficult it is going to be to ensure that our children and grandchildren will share in this very successful program.

As many of you have seen on the news, President Bush recently appointed a bipartisan commission to formulate a comprehensive Social Security reform plan. That commission is different than what we are doing today. That commission was given certain principles or marching orders, if you will. They have been given the six principles to formulate their plan and that commission will report back to Congress later this fall.

But ultimately, it will be Congress that will accept or reject that commission's ideas. And specifically it will be our Subcommittee, the Social Security Subcommittee that will begin to weigh these options, begin to formulate these pieces of legislation or this legislation that will reform the program, make it viable for future generations.

While the President's commission's deliberations are welcome, we are not going to rubber stamp those recommendations. That is why we are here in the heartland, here on this campus. In fact, as

Chairman Shaw—as we were talking about conducting field hearings and leaving that inside-the-beltway mentality and to come out to real America, the Chairman specifically said we need to go to college campuses I look around the room and see some familiar faces here. I will not tell any stories on you, Merrell or anybody else in the crowd.

But when you look at the demographic representation we have today, for those of you that are on retirement, what we are going to do in Congress is not going to affect you. Even those of you nearing retirement, any changes to Social Security are not going to affect you. The ones most directly affected by whatever Congress does is going to be those of you that are either in college or who have just graduated, joining the work force, you are the ones that are going to be most affected by this discussion.

Someone who graduated from the University of Missouri a couple of weeks ago and began in the workforce, assuming that they were to continue to work until their retirement age of 67, under the same present system, that young person would have to live until the age of 100 in order to get out of the Social Security system what he or she has put into the Social Security system under the present structure.

So maybe that is something you think is good, but that is the reason we are here. Not to hear us—and I am going to have a chance to introduce a few folks. Let me say before I talk about—I want to be sure I get everyone—where is Bob Duncan, Bob there in the back of the room. I wanted to tell you that we have certain staff Members. Bob Duncan is—many of you know Bob as the head of the local Social Security Administration office. It might be that you have a specific problem with Social Security. That is the reason Bob is here. Boy, your shoulders kind of sagged a little, Bob, when I said that. Is some of your staff here too, Bob, as well? Man, that is great. We appreciate very much the strong working relationship that we have cultivated with your office and thanks for being so responsive. It is just a coincidence, folks, that Bob is closest to the exit door. [Laughter.]

But if there is something that you have as far as—thanks, Bob—as far as a specific problem, we do have experts that are here as far as those that deal with Social Security every day.

It is my honor to introduce to you the Chairman of the Social Security Subcommittee. Clay Shaw is the third most senior Republican on the Committee on Ways and Means. He serves as the Chairman of our Social Security Subcommittee. He has continued to spearhead efforts on this issue of Social Security. From 1995 to 1998, he served as the Chairman of the Human Resources Committee, where he was credited, with others, of authorizing and writing the welfare reform legislation. He is also a Member of the Trade Subcommittee. Prior to taking a seat on the Ways and Means Committee in 1998, excuse me, 1988, Clay Shaw served on four other committees—Judiciary, Public Works and Transportation, a Select Committee on Narcotics Abuse and Control, as well as Merchant Marines and Fisheries. He has been representing the south Florida Congressional District since 1981. He has been Chairman of the Florida Delegation since early 1996.

Please join me in a warm Columbia welcome for Congressman Clay Shaw.

[The opening statement of Mr. Hulshof follows:]

Opening Statement of the Hon. Kenny C. Hulshof, M.C., Missouri

I am pleased that the Social Security Subcommittee will today have the chance to hear our community's thoughts and ideas on the long-term challenges facing Social Security. This is a great opportunity, and I thank everyone who took time out of their busy schedule to be here today. In particular, I would like to thank the University of Missouri for hosting this event and express my appreciation of Skip Walther for agreeing to moderate today's program.

Social Security is the most successful program ever administered by the federal government. Prior to its inception, old age was not a person's golden years. Most of our nation's seniors lived in poverty. The dramatic improvement in the quality of life for older Americans since the creation of Social Security is a testament to the effectiveness of the program.

Social Security's trustees recently issued their report to Congress on the financial status of the program. The news in the short-term was good. Recent economic growth increased payroll tax collections, which improved the actuarial status of the program.

The trustees also noted, however, that this is not a trend that will continue forever. Demographic changes in our nation—the retirement of the baby-boomers and the blessing of longer life expectancies—combined with fewer workers paying Social Security payroll taxes per retiree will begin to strain the program. It is projected that beginning in 2016, the Social Security Trust Fund will begin to post deficits. By the year 2038, Social Security will be unable to meet the obligations it has made to workers who are currently paying taxes into the system.

Social Security is not a pre-funded system, like a private pension plan. It is a pay as you go system where the payroll taxes of current workers are used to finance the benefits of current retirees. Since the Administration of President Lyndon Johnson, revenues from Social Security payroll taxes have been included in the overall federal budget. The Social Security Trust Fund is essentially an accounting device, filled with special government IOU's that track income and distributions from the program. Under this structure, future funding shortfalls threaten not only the Social Security benefits upon which seniors depend, but other federal programs that are vital to our nation's interests.

In other words, failure to begin the process of reforming the most successful social program in the history of our nation would be akin to burying one's head in the sand.

Under the guidance of Chairman Shaw, the Social Security Subcommittee has held numerous hearings on the challenges facing Social Security. We have heard from respected experts representing all points on the political and ideological spectrum. The one point upon which I would say there is consensus is that Congress and the President should act sooner rather than later to address Social Security's long-term solvency problems. The longer we wait, the more difficult it will be to ensure that our children and grandchildren share in Social Security.

As many of you have probably seen on the news, President Bush fulfilled a campaign pledge and appointed a bipartisan commission to formulate a comprehensive Social Security reform plan. The commission is not starting from scratch. They have been given six guiding principles to abide by while formulating their plan. The commission is expected to make its recommendations to the President and Congress by fall.

But ultimately, it will be Congress and specifically, the Social Security Subcommittee that will weigh the options and formulate the legislation that will reform the program and make it viable for future generations. While the commission's deliberations are welcome, its recommendations are not going to be rubber-stamped by the legislature. That is why we are here. It is imperative that the subcommittee tasked with crafting Social Security reform legislation hears the thoughts and concerns of the public. It will take a true bipartisan effort and the support of every generation to make this undertaking a success.

Again, it is my pleasure to welcome you to this hearing, and I look forward to listening to your ideas on Social Security reform.

[Applause.]

Chairman SHAW. Thank you. Thank you very much.

It is a real delight to see so many people here. When you have these hearings, it is very seldom that you are able to get this much attention from the community. But I might also say it is very seldom that you go out of Washington and have hearings on something as controversial as Social Security.

For those of you standing in the back of the room, I see a few seats down there and there are quite a few down at the other end of the room. If you care to be seated, there are chairs I think that will accommodate just about all of us.

When Ken and I started talking about bringing this Social Security matter and bringing these hearings to college campuses across the country, he was very quick to say that the University of Missouri has got to be our priority. And I want to tell you something, this is the first hearing of its kind in the United States. But depending upon how this one turns out, I can assure you, there will be others.

How many in this room know what the notch is?

[Show of hands.]

Chairman SHAW. What would you think about the Congress creating another notch for these young people here and give them about 70 percent of the benefits that you are receiving or that in just a couple of years I will be receiving? How many think that would be fair?

[No response.]

Chairman SHAW. I did not think so.

And how many people here think that Congress really can do something about it if we work together and get together, Democrats and Republicans, and really venture out to save Social Security—how many think we can save Social Security without creating another notch?

[Show of hands.]

Chairman SHAW. At the end of this hearing, I hope every hand in here will go up, because Congress can and should.

Mr. Duncan back there, he can help you out with the current problems, but it is the Congress that is going to have to save Social Security.

Social Security was probably the greatest anti-poverty program ever created by the Congress. It is so fair, you work, you pay into it and when you retire, you have a benefit, you have a pension.

You know, private pension plans cover very few of us that are workers here in this country. Less than half are covered by pension plans. So Social Security is the pension plan of the common man, it is the one that has got to be there and it is up to the Congress to save it and not to cut it, but to save it for all times.

When Social Security, almost two-thirds of a century ago, was put into place, there were 40 workers per retiree—40. Now we are down to just a little over three. And certainly in the lifetime of many of the young people here today, it will be down to two workers per retiree.

Now quite obviously, 12.4-percent payroll tax will not take care of those younger workers when they get down and these baby boomers really get into the system. As a matter of fact, as Ken told you, in 2016, we no longer will have enough FICA taxes coming

into the system to pay off the obligations of the system to retirees beginning in 2016. Now some of you will say well, my goodness, you have got all those Treasury bills. Yeah, you do. We are not going to run out of Treasury bills until 2038.

But let me tell you something that is going to come as a bit of a shock to you. So what—so what? Beginning in 2016, the Congress is either going to have to cut benefits or find a way to pull money into the system. And the fact that we are paying off those Treasury bills does not make any difference, we still have to find the money or cut benefits, if we do not start planning right now to save Social Security.

Alan Greenspan, in testifying before the Ways and Means Committee, said that these Treasury bills held by the government as an obligation by the government to the government are not real economic assets—Alan Greenspan said that, not Clay Shaw, not Ken Hulshof—Alan Greenspan. Also, the Secretary of the Treasury under President Clinton said the same thing.

You want to be a millionaire? Take out a piece of paper and write "I owe me a million dollars," and put it in your pocket. Is that a real economic asset? It is the same thing, the Federal government wrote "I owe me a million dollars" on every one of these Treasury bills and go put them in a cave out in West Virginia and we say we do not have any problems until 2038. We are going to have some big problems if we do not get busy. And those problems are going to start in 2016. And this is a crisis that we need to carry this message across this country and be sure that all the American people understand that.

Social Security has always been called the third rail in politics. I can tell you after this last election—now my district is south Florida. I have got more elderly people in that district than anywhere in the country and I will tell you, when I finally survived that election, I felt like the last guy voted off the island, it was so close. And I am not even going to talk about the other elections in Florida. [Laughter.]

Not even going to start because then somebody will start the Florida jokes and then I am going to get mad and leave. So we are not going to do that. [Laughter.]

But it is something that we need to talk about. And the third rail of politics today should not be doing something about Social Security, it should not be doing something about Social Security. Every one of you in here who are my generation or even older, you want it to be there for your kids. I have got 13 grandkids—13 grandkids. And I am not going to leave Congress until I can be sure that they are going to be able to enjoy Social Security when they become my age, when they become 67 or whatever retirement age will be then.

And I want to be sure that we are not raising the retirement age to the extent that people who work outside are going to be working until they are 75 or 80 years old. You cannot do that. The population of the elderly in the next—I hate that term, because I am about ready to be elderly—the population of the seniors who will be on the Social Security system in the next 30 years is going to double—it is going to double. We need to do something about it.

That is why we are here. We are here in America's heartland. We are delighted to be here. We certainly thank the University of

Missouri for hosting us. I thank each and every one of you for being here today. We are going to have an active program and I think it is going to be an interactive program. We are not here just simply to drive home a point because this is still work in progress. We are getting out of Washington.

I had hoped that we could have had some of the Democrat members here because they certainly were invited, but were unable to—I am sure through scheduling or whatever. But we are going to bring the message back, so give it to us strong. Have exchange at your tables. Get busy, do like we do, fight and then go home friends. We do that and I think that is what is important, just as when we had welfare reform, we had a Republican Congress that passed it and a Democrat President that signed it. Now we have a Republican Senate—that was a little bit of a surprise for some of us—I mean a Democrat Senate—that was a little bit of a surprise for some of us; but we are very hopeful that we can pass a good bipartisan bill that has good bipartisan support and that the President will be proud to sign it and we will be proud to say that we saved Social Security for all time, not just for the greatest generation, but for the next generation, because it is absolutely imperative that Congress legislate for the next generation and not just the next election.

Play ball.

[The opening statement of Chairman Shaw follows:]

Opening Statement of the Hon. E. Clay Shaw, Jr., M.C., Florida, and Chairman, Subcommittee on Social Security

Social Security programs have provided income security to America's families for almost two-thirds of a century and have been enormously successful in reducing poverty among the nation's elderly. Social Security also provides protection in case of long-term disability for 80 percent of workers and their families. It also provides survivor insurance for 98 percent of young children and their mothers and fathers in cases where a worker dies.

Yet, as we all know, the Social Security system faces big challenges in paying promised benefits in the coming years due to the nation's changing demographics. Over the next 30 years, the number of people age 65 and older is expected to double-from 35 million to 70 million. In addition, people are living longer and having fewer children. As a result, the number of workers per beneficiary will decline from about 3 workers per beneficiary today to less than 2 workers per beneficiary by 2075.

Because Social Security benefits depend on payroll taxes paid in by today's workers, the current system is on an *unsustainable course.* Its costs are perpetually growing faster than the tax base that must support it. Social Security's trustees estimate that Social Security's income will fall short of the program's spending beginning in 2016. At that point, Social Security will start to pressure the rest of the budget, because the government will have to come up with the money needed to cash in the Trust Fund balances. By 2038, the Trust Funds will be gone, and we will only be able to pay 73 percent of program costs.

In addition to being unsustainable, the Social Security's current design also creates substantial inequities between generations. Future retirees can expect to get back barely more than they put into Social Security, since they must pay higher tax rates than their grandparents and parents did in order to support the system.

A single female with average earnings who is age 81 today receives a return of close to 4 percent. A female who is age 16 today can expect a return of a little more than 2 percent—around a 45 percent reduction in the rate of return. Men and two-earner couples with average earnings have experienced similar reductions in the rate of return across generations. Even one-earner couples, who have the highest rate of return under Social Security, have experienced a ⅓ reduction in the rate of return, when comparing 81 year-olds to what 16 year-olds can expect. And the rate of return will continue to drop in the future unless we take action.

Restoring Social Security's financial balance through benefit cuts or tax increases makes Social Security's bad deal for younger generations even worse. Social Secu-

rity's current design also denies workers the opportunity to maximize their retirement dollars.

Another way to address Social Security's long-term financial crisis is to allow individuals to invest in personal accounts. These accounts could earn higher rates of return through prudent investment in private equities markets. These accounts would also allow Americans the opportunity to accumulate real savings. Real savings, not a promise from the government, to ensure a secure retirement income. Real savings that can be passed along to their children.

Fortunately, President Bush has shown true leadership by setting out principles for reform and announcing the formation of a Presidential Commission to strengthen and modernize Social Security. Building on the momentum of bipartisan consensus achieved in a number of proposals introduced by leaders of Social Security reform from both sides of the aisle, the President has asked the Commission to make recommendations to modernize and strengthen Social Security. The Commission will report their findings this fall.

Like many of you I have been blessed with a wonderful family, including 4 children and 13 grandchildren. This Social Security debate is not about securing benefits for people like me, near retirement or already retired. Our benefits will not be touched, as the President has repeatedly said. This debate is about the future of our kids, our grandkids, and future generations.

We know that traditional fixes alone, like raising taxes or reducing benefits, haven't worked in the past and won't work today. Beginning the debate and stepping up to the challenge is the 'American' way; ignoring it is not. Let's build on the success of the past to make a modernized Social Security system an asset to all, not a liability to our children.

Today we hear from the great people of Columbia, Missouri. You will have the opportunity to learn more about Social Security, the challenges it faces, and the options for modernizing and strengthening this important program. Most importantly, we want to hear your views on how best to secure Social Security's future.

[Applause.]

Mr. HULSHOF. Actually I get to introduce you, but you do not get to make your presentation next and then I will get to Skip.

A note was handed to me, I especially want to make sure that we recognize Public Affairs Specialist from the Kansas City Social Security Commissioner's Office, Sue Ault. Sue, where are you? Hi, Sue, thank you for being here. Also, Bill Hyno, who is I think from the same office in St. Louis, is that right? Where is Bill? Hey, Bill; thank you all for being here and your participation in this.

As we make this interactive—and as the Chairman talked about, invitations were extended not only to all members of the Subcommittee, of course, trying to get here even in Columbia International Airport I guess is kind of tough; we also extended a courtesy invitation to all the other members from Missouri that may want to attend, and again they had scheduling problems. But we wanted to make this really non-partisan, so as a result of that, we searched far and wide and somebody that you are going to be hearing a lot from today, I think in a presentation momentarily, is a representative from the American Academy of Actuaries. Ron Gebhardtsbauer is the Academy's Senior Pension Fellow, is one of the nation's leading experts on Social Security, on pension issues as well as other retirement issues. Ron has testified in front of our Subcommittee on a number of occasions, he's spoken at numerous other Congressionally sponsored forums on Social Security around the nation. As the actuarial profession's chief policy liaison on pension issues, he promotes the formulation of sound pension and tax policy by providing Congress and Federal regulators with non-partisan technical assistance. He is not here today to pick sides.

If you would, let us welcome Ron Gebhardtsbauer being here today. Ron.

[Applause.]

Mr. HULSHOF. And again finally, in order to make you feel at home, we decided to have a facilitator, a moderator, who is not someone that is in the political arena, at least not as an elected official, although I think some of you here—I probably could point out those who called your radio show, Skip, there are probably some of them here. In addition to being a practicing attorney here in Columbia, Skip Walther is the host of Columbia PM, which when the Cardinal baseball is not taking over KFRU's local air waves, Skip will be holding court on a variety of topics. And I think the fact that Skip, on his radio show, tries to present both sides or at least give fair hearing to both sides, is one of the reasons that he came to my mind as we were searching for someone to moderate this discussion.

Skip was educated right here. He got his Bachelor's degree in 1975, he got his Juris Doctorate from this university in 1979. He is a Member of the Boone County Bar Association, American Bar Association, Missouri Association of Trial Attorneys and the Association of Trial Lawyers of America.

For the rest of this program, he will be he here at the podium. Would you please join me in welcoming our moderator, Skip Walther. Skip.

[Applause.]

Mr. WALTHER. Thanks, everybody, for coming to this Social Security Subcommittee of the House Ways and Means Committee. This is an official hearing. Not only have Mr. Shaw and Kenny spoken, this is an opportunity for everybody in the room to voice their concerns, questions or comments regarding Social Security, and specifically the long-term solutions to the Social Security problem that Mr. Shaw and Kenny addressed just a few minutes ago.

Because this is an official hearing, we are going to be taking a transcript, or a transcript is going to be prepared of everything that is said today. We are going to give everybody in the audience an opportunity to either make a comment or ask a question, but in order to be able to produce a transcript that we can understand, we will have to give you a microphone. So please, if you want to ask a question or make a comment, raise your hand and we will recognize you. As you came in, you were given name tags and if you look around, you will notice that they are different colors and I think they are color-coded for age. [Laughter.]

I am not sure, I did not get one, but I am 32, whatever—I have been painting my ceiling gray is the only problem.

The idea is that we are going to give everybody of different generations an equal opportunity to ask questions or make comments. So if you see too many people asking questions and they have got a red name tag or a blue name tag, pipe in if you have got one of a different color.

Additionally, because once again, this is going to be a recorded hearing, we have asked everybody to fill out index cards with your name and I do not know whether we are asking for your address or not, but we would like your name on the index cards at least, so that we can properly spell your name when we prepare the tran-

script. And when you are asking a question or making a comment, please be sure to identify yourself, all right? Please be sure to identify yourself before you ask, so that we can properly match your name to the question that is going to be on the transcript.

Now because this is an official meeting and I have been asked to facilitate or moderate this meeting, I guess it is my responsibility to try to maintain order, and this is a disorderly looking crowd, at least I see Greg Steinhoff over here, he is pretty disorderly. But it is important for you please to identify yourself and show everybody the respect that everybody here deserves. I think this is a great opportunity for all of us to have input on what is obviously a very important topic, and to that end, it would be best if we can all make our comments or questions in the flavor or the tone that we anticipate this meeting to have.

Now also when you first came in, you were asked to take a quiz. Did everybody get an opportunity to do that? We are not grading you, but if you would pull out your quiz. There are correct answers to these questions. It is a two-page piece of paper—two page questionnaire. Did everybody get an opportunity to take these? We are not going to give you any more time. If you did not get an opportunity, too bad. No, if you can, it is really pretty simple. If you did not get an opportunity, please try to fill those out or at least follow along with me.

[The Social Security quiz follows:]

How well do you know your Social Security?

1. Approximately _____ Americans receive a Social Security benefit.
   A. 45 million (correct answer)
   B. 20 million
   C. 10 million

2. Approximately _____ percent of all Social Security beneficiaries are retired workers. The remainder receive disability, survivor, spousal, or children's benefits.
   A. 99
   B. 63 (correct answer)
   C. 50

3. If you were born in 1960 or later, you can first collect your *full* retirement benefits at age _____.
   A. 62
   B. 65
   C. 67 (correct answer)

4. Social Security benefits are raised annually with increases in the cost of living in order to:
   A. Make sure the purchasing power of benefits doesn't drecrease over time. (correct ans.)
   B. Supplement benefits for people with income below the poverty line.
   C. Decrease the deficit.

5. The amount of your Social Security benefit is based on the:
   A. Amount of taxes you pay.
   B. Your average annual earnings over your career. (correct answer)
   C. Your last three years of work.

6. The combined (employer and employee) payroll tax for Social Security benefits is _____ on earnings up to $80,400.
   A. 3.1%
   B. 6.2%
   C. 12.4% (correct answer)

7. The FICA taxes you pay into Social Security are primarily _____.
   A. Used to pay the benefits of current retirees (correct answer)
   B. Held in an account under your name

C. Held in a government bank account

8. Pay-as-you-go is a term used to describe the method by which Social Security traditionally operated to pay benefits. It means:
A. General revenues are used to pay Social Security benefits.
B. Taxes on the benefits of rich people are used to pay benefits to poor people.
C. Taxes on current workers are used to pay benefits to current beneficiaries. (correct answer)

9. The surplus income from Social Security taxes is invested in Treasury securities. If the Trust Funds need to redeem their Treasury securities, the money to do this comes from _____.
A. Income tax dollars (general revenue) (correct answer)
B. Payroll taxes
C. The bank

10. In 1945, there were 42 workers for every Social Security beneficiary. Today, there are about _____ workers for every beneficiary.
A. 30
B. 9
C. 3 (correct answer)

11. In _____, Social Security taxes will not be enough to pay full benefits.
A. 2016 (correct answer)
B. 2038
C. 2075

12. In 2038, Social Security taxes will be enough to cover _____ of program costs.
A. 50%
B. 73% (correct answer)
C. 100%

Mr. WALTHER. With respect to this particular quiz, let me ask this question: Question number 2 read: "Approximately [blank] percent of all Social Security beneficiaries are retired workers. The remainder receive disability, survivor, spousal, or children's benefits."

Now who answered A., which is 99 percent? Go ahead and raise your hands if you did.

[Show of hands.]

Mr. WALTHER. Good job. Okay, who answered C., 50 percent?

[Show of hands.]

Mr. WALTHER. And who answered B., 63 percent?

[Show of hands.]

Mr. WALTHER. You guys are pretty smart. That is the correct answer.

What about number 7? That question was "The FICA taxes you pay into Social Security are primarily—." Who answered B., "Held in an account under your name." [Laughter.]

We know better than that. C., "Held in a government bank account." [Laughter.]

A., "Used to pay benefits to current retirees." Obviously that is the correct answer.

All right, number 9, "The surplus income from Social Security taxes is invested in Treasury securities. If the trust funds need to redeem their Treasury securities, the money to do this comes from Payroll taxes," anybody?

The bank. Income tax dollars (general revenue) is obviously the answer. All right.

How about number 11. In—well, I guess we have already answered this question a couple of times, "In [blank] Social Security taxes will not be enough to pay full benefits."

Now before you heard Mr. Shaw tell you what the answer to that question was, who put 2038? Nobody?

Oh, there is one. I would say they are political persuasion, but I guess that would not be appropriate here, would it? No.

The answer is 2016, that is the correct answer.

And then number 12, and we have heard this as well today, "In 2038, Social Security taxes will be enough to cover [blank] of program costs." 73 percent is the correct answer, that is right. And as Mr. Shaw correctly pointed out, that is obviously not good enough.

This is 2001, we have got about 15 years to solve the problem and we are going to hear now from Ron Gebhardtsbauer, who is an expert actuary and he has a rather interesting program for all of us. So I will turn the microphone over to Ron at this time.

Mr. GEBHARDTSBAUER. Thank you, Skip. Chairman and Congressman, thank you very much for holding this meeting and inviting me to talk. And Americans from Missouri, thank you very much for joining us on such a beautiful day. We do not get very many days like this in the eastern part of the United States. So thank you very much for coming in.

As you have already heard from the Congressman, my name is Ron Gebhardtsbauer and I am an actuary and as he also mentioned I am part of an organization, the American Academy of Actuaries, which is the professional association for actuaries in the United States. So I have Members that are all over the spectrum.

So my job here is to be neutral and just to describe some of the options that we have for Social Security. But first, I am going to give you just a little background. Actually the Members of Congress have already said a lot of good things already about Social Security and done it in a very interesting way. But I am going to talk a little bit about Social Security's basics and give you an idea of how much you are going to get from Social Security.

But first, what you have already heard from both Members of Congress and I hear this often, you will see a slide to your right or left—you do not have to look at the one behind you—hopefully you can see them. Okay. One of the reasons why they say Social Security has been one of the most successful programs in the United States is the poverty levels are way down for people over 65. You can see back in the fifties when they first started collecting these poverty statistics, the poverty level for people over 65 was 35 percent and now it is, in 1999, down to 10 percent. So a lot of that is due to Social Security. Some of it is also due to SSI and good policies on pensions where Congress has actually given tax advantages to pensions and encouraged employers to have pensions. But I would say the primary reason is because of Social Security.

So what can you expect to get from Social Security? A lot of you maybe already know, but for those of you who have not retired, I am going to show you two slides that will give you an idea of how much you will get from Social Security. And these two slides also show something else about Social Security. When Congress and Roosevelt first put Social Security together in the 1930s and 1940s, they wanted a system that had these two primary goals. One is

they wanted the benefits to be socially adequate. In other words, they wanted that benefit at the low income levels to be at least adequate for very, very basic living needs. But they also wanted the Social Security system to be equitable.

So this first slide shows that, for instance, if you make about $10,000 on average throughout your career, Social Security would replace about 63 percent of your salary, so you would get about $6,000 in Social Security per year.

On the other hand, look at higher salary levels, say $60,000, a little off to the right. That person will get about one-fourth of their wages replaced when they are in retirement. So they would get one-fourth of $60,000 or about $16,000 for the rest of their life.

Now this is maybe not something you would expect because everybody is putting in the same rate of pay. You're all putting in about 6.2 percent of your wages into Social Security, whether you are earning $10,000 or if you are earning $70,000 or $80,000, you are putting in 6.2 percent of your pay. And your employer puts in 6.2 percent of pay, so together it is 12 percent. So you are all putting in the same percent of pay, you would expect the program then to give you all the same result, 30 percent of pay or something like that is what you would get out. But no, in fact, the benefits are a little bit tilted in favor of low income people.

So let us go to the next slide because that was percents and I have had people tell me percents are not the way to go, you ought to talk in dollars. So this slide is slightly different, and I apologize, it is a little bit hard to see, but let us look at that $10,000 person again. You can see they would get a Social Security benefit of about $6,000. Someone up around the $60,000 area is getting $16,000 for the rest of their life. And this is for someone who has worked 35 years in Social Security at about those wage levels. If you work fewer years, then you wouldn't get quite this much.

But one of the other things that this slide shows is another important part of Social Security's goals and that is that it be equitable. So for someone who is earning more money, paying more taxes, their benefits should also be higher. And in some countries actually that is not the case. In some countries, if you have higher income levels, you get the same benefit as somebody at the lower income levels, or you may not even get a benefit. And so that has caused problems because the people at higher income levels say well why am I continuing to put more and more taxes in compared to somebody else. So those people would be much happier in the United States because they see that they're putting more in but they are also going to get a little bit more out of Social Security.

In addition to knowing how much am I going to get out of Social Security, you also want to know when am I going to get that benefit. In that last slide I always used to say you got the benefit starting at age 65, but that has changed now. A lot of people do not know that. In fact, that was in your questions. Who says that the retirement age is 65 under Social Security for full benefits? It looks like Missouri is doing a lot better than the rest of the country. Evidently more than half of the people in polls taken did not know that the Social Security retirement age for full benefits is going up from 65, which it has always been prior to 2000, it is gradually going up to 67. So this slide, if you were born in 1960

or later—anybody who is Generation X or later—is it okay to use the word Generation X, I hope? Your retirement age will be age 67. And maybe that is not so bad because you are also probably going to live more than 2 years longer than people who are already retired today. But anyway, as you can see, the normal retirement age is going from 65 to 67.

One other thing that I did in this slide was: you not only get a benefit starting at retirement, but you can also get a benefit when you become disabled under Social Security. So that is why I say in the slide Social Security benefits at normal retirement age and also at disability. And in fact, your benefit is pretty much the same thing. So for somebody who is only age 29, and say their salary was one of those numbers, it is going to be pretty much the same dollar benefit even though they only work 8 or 9 years on Social Security. So someone who is disabled is actually going to get a lot more back from Social Security than they put in so far. So that is an insurance element of Social Security.

There is also another insurance element of Social Security and that is payable if you die at an early age. If you die at a young age, your spouse, while there are kids, would get benefits and then your spouse, when she reaches age 65 (I am assuming a male worker, female spouse, could just as easily be a female worker and a male spouse who did not work) would get a benefit too.

I just wanted to point out in that slide, in year 2000, about one-third of Social Security's benefits were payable to disabled people or to survivors of workers. So that was another question that I think Skip brought up. There are a lot of benefits that are going out to disabled people and survivors. And that slide also shows a total of about $402 billion, so Social Security is a pretty immense program.

One other benefit that is particularly important for traditional couples is where you have the working male spouse and a non-working female spouse. And let us suppose the male spouse deserves a benefit from Social Security of about $1,000 a month. It is kind of hard to see, but it is shaded yellow on that slide. In addition, his wife would get an extra $500; so a monthly benefit equal to half of his benefit would also go to his spouse as long as they were both alive. And then when he dies, his $1,000 benefit would go away, but her $500 benefit would increase to $1,000 and that is that second blue chart. So she would get $1,000. So in total, when they were both alive, they were getting $1,500 and then if either one of them dies, then they would be getting $1,000 after that. So they get about two-thirds of what they were getting when they were both alive.

Oh, one other point I wanted to bring up in a prior slide. I mentioned the normal retirement age is 65 going up to 67. You can still get a benefit at 62. So if you want to stop working and your income is adequate, you can retire at 62 and you can get a benefit. It will not be as big as if you had waited until the full retirement age, but you can still get a benefit at 62.

One other important point to mention about Social Security is the benefits go up with inflation and people who are already retired know that. Every January, their check goes up a little bit to cover the fact that costs are a little higher, inflation has gone up. Social

Security's benefits go up with inflation. And that is important, because suppose inflation was about 3 percent a year. You fall behind say 3 percent a year, that does not seem like too much in one or two years, but suppose you lived to age 95. This chart shows that if you had started out with a $100 benefit, by the time you are age 95, your purchasing power, because you have lost this ability to purchase things because of inflation—your purchasing power is now only $41. So you have lost a lot. So that inflation protection is important. Of course, a lot of people who are young will say oh, 95, I am never going to get there. But here is a slide, and this is where you really need the actuaries. We have statistics on how long people will be living and you will see at age 95 on this chart, 21 percent of women and 13 percent of men are still living. So for that group of people here, you are going to want to make sure that you have inflation protection. You not only want to know that benefit goes for the rest of your life, you also want inflation protection.

Okay, now I have talked about Social Security's benefits, and there are a few more because there are benefits for kids and there are lots of little complex benefits. Some of our Social Security people are here in case you have individual questions about Social Security, but I want to move now quickly on to Social Security's financial situation. And as the Members have already brought up, Social Security right now is bringing in more money in FICA taxes (and taxes on benefits) than it needs to pay out. So you can see in the early years, 2000, 2005, there is a little green on the top and I used that green to sort of signify extra money. Social Security has got more money now than it needs to pay out. But you will see around the year 2016, and I apologize, it is still difficult to read, but that little note there says "Around 2016, the outgo exceeds the income." At that point, as they mentioned already, Social Security is going to go to the Treasury Department and say well, I have these Treasury bonds, I need to redeem them in order to pay everybody's benefits. So please give me cash so I can pay these benefits. And at that point, Treasury says, well, actually, you know, we do not have lots of extra bills in our pocket, you know, maybe if we had some extra income taxes—we have some of that around—but if we don't have extra income taxes at that point, what we call on-budget surplus, then we are either going to have to raise income taxes, or we'd have to increase our deficits. So that is why I put that in red. It is kind of hard to see, but what that means is there is authority to pay these benefits and Treasury will give Social Security the money, but in order to do that, we as taxpayers, have to think not only about Social Security's needs, but we as taxpayers then realize that we are either going to have to contribute more in taxes or we will have deficits. And deficits can cause economic problems, so that is not necessarily a good solution either.

And then after year 2038, that is the other key date, at that point, there is actually no authority to keep on paying benefits, Social Security's trust funds would run out and so it is unclear what happens after the year 2038. And so these are the reasons why we are here to figure out what can we do to fill those back up to 100 percent.

Some of you may ask, and it has already been mentioned, why this is happening. You will notice right now, we have a little more

than three workers for every retiree. There are 153 million people paying in and 45 million people getting benefits out. But around 2030, when all us baby boomers have retired, there will be 176 million workers, so there will be more workers, but there will be 83 million people getting benefits out. So you will see the ratio is only two workers for every person getting a benefit out.

One way to fix that, of course, is to raise taxes, but there are other ways of doing it and I am going to describe that a little bit later, but this kind of gives you an idea of what Social Security is up against.

This slide I am just going to leave up there because I want to give you an opportunity to ask any questions that you might have and clarify anything that I said that you did not understand and then in the next part of my talk, we are going to talk about what are some of the ways to fix Social Security.

So the mike is open. If anybody wants to talk—again, as Skip said, we have mikes that we will have around the room, and I guess we need your name, right? And your question.

Mr. WALTHER. Does anybody have any questions? Yes, sir.

Oh, and before we start, your index card has your name on it and make sure again you identify yourself. If you can, in order to make your question as concise as possible, if you do not mind, try to write your question down on the index card. That way you make it concise. You do not have to, but it is just a request and it might help us clarify some issues.

The gentleman over here with the white shirt on. Why do you not stand up, give your name and if you have got a comment or a question, go ahead.

Mr. FELIX. It is actually partly both.

Mr. WALTHER. Okay.

Mr. FELIX. My name is David Felix and I am a retired economist from Washington University. So I am somewhat familiar with these long-term projections and I know that they are very, very dubious. And I also have been looking into the trustees who put these numbers together.

Now what the trustees have done, and this has not been mentioned yet, has been to make three alternative projections for the 75 years and the 35 years or 38 years. One they call the low, the medium and then the high. Everyone here has been using the medium. The low is based on projecting most of the trend since the post-war period began to continue, such a 2.6-percent growth of the gross domestic product (GDP), productivity of about 1.25 percent per worker per year and about the same immigration in-flow. The medium changes that. It does not explain why—and let me say another thing about the low—with the low, they also point out that there is no Social Security problem, that the tax receipts would adequately cover even the baby boom bubble, so the crisis disappears.

With the medium, you get a 1.8-percent increase in GDP up to 2038 and then it drops to 1.2 percent thereafter and the explanation for that seems to be a combination of a slower growth in the labor force, which is based on demographic projections and no increase in immigration percentage to offset that or increase the labor force participation of women. They do not try to justify any

of these projections, they are just pointed out, that is what it looks like to us and the range is pretty wide.

Now why do we use the medium? Why are we assuming that the growth rate will drop, that the productivity per worker will drop and that immigration will not increase relative to the labor force? What is the justification for that. They do not give us any.

Mr. GEBHARDTSBAUER. Thank you for the question.

Actually when I have more time, I actually have another slide which shows what he was talking about. The budget sometimes is projected 10 years and if you go back a few years, we did not know that we were going to have all these surpluses now. So if you go 5 years back, we thought we were going to be in deficits, and so it is pretty hard to predict what is going to happen in 10 years or even 1 year sometimes.

The Social Security actuaries are predicting—I should not use the word predicting—they are making forecasts that are 75 years out there in the future. And the reason why they do that is they want to make sure that Social Security is not only going to be around for someone who is already retired, but Social Security is going to be also around for someone who is 20 years old today.

The gentleman asking the question mentioned there are three projections, because the Social Security actuaries do not just want to show one. And they call it the trustees projections. The trustees produced this big report and they showed three projections. One is called the low cost or maybe I will call that the optimistic one. And then there is also a pessimistic one too. The optimistic one, as you mentioned, says that Social Security does not have any problems out there in the future, that the trust funds will never run out.

That also gets back to an issue that was brought up by Congressman Clay Shaw though, and that is that Social Security's trust funds will not run out but you will still have that red area where they will have trust funds and they will need to redeem them and so they will need to have tax increases.

There is another concern on the optimistic one and that is a lot of people feel that the trustees should have a better, a more rosy projection of what the economic assumptions should be and a lot of people are sort of pushing in that direction. Actually if you go back to 1990, people were pushing in the opposite direction. I do not know if you remember, back in the eighties, we thought we were going to lose the economic war to Japan and so all the economists and actuaries were saying lower the economic projections. So they did and that is one of the reasons why Social Security does not look as good.

So now what is the question? What is going to happen in the future? Are we going to have that good economy or not? Is that Goldilocks economy going to continue, and that is a very important question, is it going to happen?

But one of the things they also notice is that a lot of baby boomers are going to start retiring over the next 30 years and we are going to start losing their productivity. So the question is will we have lots of productivity in the future or not.

The other thing I ought to mention about the optimistic scenario, it assumes that we are going to have a lot more kids born for every woman and it also assumes that we are not going to live as long

as some—most actuaries are predicting now. So what they do is they actually have every one of the assumptions be optimistic, even the fertility and the longevity assumptions. So we are not all sure that that is going to happen, because some people think well maybe we are going to have a slightly better economy, but they also think that we are going to live longer. And they are not sure that we are going to continue to have about two kids per woman. And so that is why you also have a pessimistic set of assumptions which says that Social Security could run out of money around 2027. The question is which one, and Congress has decided it is the middle one and in fact, it is not only the trustees and the actuaries and Congress, but these assumptions have been given to actuarial organizations, the GAO, technical panels of economists and actuaries and they have basically said the middle one is the most reasonable one. They call it their best estimate.

So I appreciate the question. We do not really know what is going to happen, but it is probably better to be ready for the middle one instead of be ready for the optimistic one.

Mr. WALTHER. For those of you who may not have heard, Ron is a Senior Pension Fellow with the American Academy of Actuaries and Ron, could you define—because some of the people may not know what an actuary is or does. Could you define what an actuary is?

Mr. GEBHARDTSBAUER. That is tough. I always want lawyers to define what they do too. [Laughter.]

An actuary——

Mr. WALTHER. Come to my office and I will tell you.

Mr. GEBHARDTSBAUER. Have an hour to talk about it.

Mr. WALTHER. There you go. At a reasonable rate.

Mr. GEBHARDTSBAUER. Actually my rate is better than yours.

Actuaries are often mathematicians, but they do not have to be. What we do is we often help companies with their insurance and their pensions. There are a lot of actuaries who work at Social Security too. And so what we often do is we price risk. You know, what is going to cost when they price their product. For example, how much did it cost to put this house or car together. But if you are an insurance company or if you are a pension plan, the costs are in the future, so you need an actuary to figure out the cost of that future expectation of payment. You know, I am going to pay something if you die that year or I am going to pay something if you are still alive. So you need an actuary to make those projections and put a cost on it for today.

Mr. WALTHER. And before we get to our next question, I might point out that Ron has appeared in a variety of programs throughout the United States with ex-President Clinton and Vice President Gore, in addition to a number of Republican Congress people and Senators. And so Ron is not here, as Kenny pointed out, not here representing either side. He is trying to be as objective as he can and I think that is what he has to be because that is what his profession is.

So feel free to ask him any question you want. There is a lady back here. Again, identify yourself.

Ms. DAVIS. Karin Davis. I do not have a card or a name tag, but K-a-r-i-n Davis.

I would like to know why we cannot take a certain percent of the money paid in to Social Security and invest it in American business, which would help the economy and this is the way that insurance companies make money. They invest the money you pay into them, that is why they can afford to pay you back if you need it and they can have all these millions of dollars in profits, or billions. So why can we not do the same thing with Social Security?

Mr. WALTHER. Good question.

Mr. GEBHARDTSBAUER. Actually, I will be getting to solutions and suggestions on how to fix it next. Is that appropriate? And maybe to turn your words into a question, I guess maybe why did they just invest in Treasury bonds in the past, and I guess they created Social Security back in the thirties and forties when they were not feeling so good about the stock market. Today is much different than back then.

In addition, you will hear a little bit later, there is a concern about the government investing in the stock market. So we will get into the ideas of individuals doing it a little bit later.

But if anybody has questions on what I have already talked about, that would be good.

Mr. WALTHER. We have a question right over here. Stand up.

[Laughter.]

Mr. LEONARD. Gary Leonard, Columbia, Missouri.

I have a question for both Members of Congress here today. We have heard so far the Social Security system being described as the most successful Federal social programs—that was Mr. Hulshof who had said that. My question is that if it is such a wonderful program, why is it that Congress administers the program but does not participate, that they maintain their own pension system for themselves.

[Applause.]

Mr. LEONARD. Now you are both grabbing for your mics, I wanted—I do not mean that as a criticism of either individual here today because they are not directly responsible for that. But the problem with bad public policy is it is the future generations that are the ones that have to come in and clean it up. And from the standpoint—to balance out my remarks, I would like to thank Congressman Hulshof, because I think without him as our representative from this area on the Ways and Means Committee, we would not even be having this discussion here today or in America. So we are finally getting it to the point where we are able to talk about this and I think that is very helpful, but I would like either or or both of your comments on that.

Chairman SHAW. That is a good question and that question would have been very relevant about four or five years ago, but Congress does now participate in Social Security and we pay into it just like everybody else. And like so many American workers who do have the benefit of a pension plan, we pay into our pension plan as well. But we are covered under Social Security.

Mr. HULSHOF. And the only other point I would add to that, and maybe sort of as a question or something, I would like, Ron, when you talk about the potential solutions, I know one of the—a couple of Members of Congress would like to take the Congressional retirement system called the Thrift Savings Plan, and use that per-

haps as a basis or model of moving the present Social Security structure into. So maybe if, during the next portion, you could just focus on that a bit.

Mr. WALTHER. And I may point out, Gary's question is a good one because there is a rather sizable number of employees in the United States who do not participate in the Social Security system, and that might be something, Ron, that you might be able to address. I know that a potential solution is to include those people in the future. So from a historical perspective why those employees—who they are and why they do not participate.

Mr. GEBHARDTSBAUER. I will certify that what Congressman Clay Shaw said, Federal employees and Congress are definitely in Social Security. I every once in awhile see an e-mail saying that the Federal government is not in Social Security. And they are. I was the chief actuary for the Federal government's retirement plan back in the eighties when Congress said all of us are now in Social Security. It was one of the ways to help put Social Security back into balance, back in 1983 when they brought in more money into Social Security. So I had to change around the retirement plan for the Members of Congress and Federal employees. At one time, they had just one big retirement plan. Now they have a smaller plan from their employer and they have something like a 401(k) plan, which is what Congressman Hulshof said, and they are also paying into Social Security too. And a lot of large companies have that mixture of the company pension plan, a 401(k) and Social Security, but a lot of lower paid people do not have that and so we will talk about that in the next section.

And Skip mentioned, yeah, there are about 10 States still where—in fact, this is probably where the e-mail comes from. There are still 10 States out there, maybe a few more, where police and firefighters, maybe some teachers are not in Social Security still. And it is mostly the large States. Even though you will see a little bit later, a lot of the public likes the idea of bringing them all into Social Security, making it universal, these are big States, so it may not happen. I do not know.

Mr. WICKERSHAM. My name is Bill Wickersham.

I would like to ask you, in terms of your having dealt with this with young people, I am certainly not trying to start an age war here, but is it your feeling that the people you have dealt with understand the three legs of Social Security? Because I have a sense that many young people do not understand the survivor part and the disability part.

Mr. GEBHARDTSBAUER. Yeah, that is why we had a slide there that showed that one-third of Social Security benefits are disability and survivors. I know someone that I work with, that is something that he knew about because his dad did either die early or became disabled, so they were actually recipients of the disability and survivor benefits. So I am assuming you were talking about the three types of benefits that Social Security provides.

Mr. WICKERSHAM. Most people think it is only one—I mean many people think it is only one.

Mr. GEBHARDTSBAUER. Right. You also mentioned three legs and I was thinking of something slightly different. That is where a lot

of people save on their own, plus they have Social Security, plus they have a company pension plan too.

Mr. WICKERSHAM. My question is do you sense young people understand?

Mr. GEBHARDTSBAUER. The young people that have received it, have been the beneficiaries; yeah, but I think a lot of people do not realize that there is an insurance benefit. In fact, all of Social Security actually is called insurance. If you look, even the retirement part is called old age insurance. So back in the thirties, it was if you make it to age 65 and retire, we have this insurance policy for you. But now age 65 is not an if, it is a when. So that is maybe one of the reasons why we are rethinking Social Security, it is going from maybe insurance to accumulation of money.

Mr. WILLIAMS. My name is Michael Williams, I live here in Columbia.

Ron, you said something a minute ago that really peaked my interest. It was a number that I have never seen before and so I have not thought through a lot of this yet. I think I am going to need to limit my comments to those of us who are probably under 55 because I think people that are over 55 are in a different category and have to be handled differently.

What you showed on a slide up there was that by 2038, payroll taxes will only be able to accommodate 73 percent of that benefit promise. Is that accurate?

Mr. GEBHARDTSBAUER. That is right.

Mr. WILLIAMS. And that seems to be something bad. My initial response is so what? For those of who are 50 right now, you have got 15 years to get your act together. You have got until 2038 to get your act together if you are even younger.

Now some people are going to require survivor benefits, I understand that. Some people are going to require help due to a variety of circumstances. I understand that. But most of us in this room that are 50 and under right now are going to live to be 65—you showed that. Is it too much for us to expect you to get your act together by the time this goes down?

You can save, you can invest in this great United States, which is going to go forward, and by the time 2038 rolls around, you ought to be able to cover that extra 20 some odd percent plus a whole lot more. I think that we should expect that of ourselves.

Chairman SHAW. Can I comment? I cannot sit down for that.

It is not fair. It is not fair that the young people here and your generation pays in payroll taxes for your entire working life when Congress can save it now. If that was the only way to save it, then I would say that would be the way to go. But it is not. There are projections out there right now in the Clinton administration where we are showing and projecting for the next 75 years, a $20 trillion deficit in the Social Security system. There are plans out there that have been put forward, including one that I put forward last year that was scored by the Clinton administration—not supported by them, but scored by them, as creating a $10 trillion surplus.

So we can solve the problem—we can solve it. So why tell the next generation "tough, you are just going to have to tough it out." It is not fair and it is not necessary.

That is the answer to your question. It is just not necessary to do that. But doing nothing will do that. I do not want to start a debate, but you asked the reason and I wanted to be sure that I was clear on that.

Mr. WILLIAMS. Right now, I am 51 years old, heading for 52. I have no intentions of relying on the Federal Government to support me into my old age. I intend to rely on my family.

[Laughter.]

Chairman SHAW. The Federal Government is not supporting—you are paying into a pension system. Social Security is an earned benefit—it is an earned benefit, it is not a welfare program. And it should be there for you because you do not have a choice as to whether you are going to pay into it, you do not have any choice at all. So it is not that you can elect out of the system—you cannot.

Mr. WALTHER. Thank you. Our next question is right here.

Ms. METZGER. My name is Lillian Metzger, and I have first a comment to make and then I have a question.

Mr. WALTHER. All right.

Ms. METZGER. I was one of the first recipients of survivor benefits. I received benefits after the death of my father from April 1941 until May 1942. He finished his six quarters on March 31 and he died on April 1.

The question I would like to ask at this time is how much has Congress borrowed from the Social Security fund over the years that has not been repaid.

[Applause.]

Mr. WALTHER. Ron, you want to tackle that? I think you might be surprised at this answer.

Mr. GEBHARDTSBAUER. Actually the money that is in the trust funds, it is there, and so Congress, when it says that it will be able to continue paying benefits out to 2038, it is going to still be able to do that.

Ms. METZGER. How much do they get in Treasury notes?

Chairman SHAW. It is almost a trillion dollars, to answer your question.

Mr. WALTHER. Is it not true that all of the money that is contributed by workers is immediately placed into—it is used to purchase Treasuries, on a daily basis?

Mr. GEBHARDTSBAUER. The money is in addition—over and above what they need to pay out, so like 85 or 90 percent of the money has to go right out to pay benefits, but the additional amount that I showed in green earlier bought Treasury bonds, and that gets us though into the issue, that is the green money that bought Treasury bonds, and that is how we got up to the trillion dollars. But again, in order to redeem that——

Ms. METZGER. But there is money that is borrowed from the Social Security account that has not been repaid by Congress right now.

Mr. GEBHARDTSBAUER. Well, actually I guess I would say that we all are a part of that decision because we were all living in the United States in the past when we did borrow money. But the good news I think we can talk about over the last 4 years is that when we do have this surplus money now, the government is not using that money to buy other government programs. It is actually using

that money to pay down the debt. So we really are saving that money now.

Ms. METZGER. But that has only been for the last few years although this has been in effect since 1930.

Mr. GEBHARDTSBAUER. Right. But I think even I and everybody, we are all sort of responsible for that.

Mr. WALTHER. Is there another question? This lady right here.

Ms. FARHANGY. My name is Melinda Farhangy and I live in Columbia. And you stated, Ron, that it is not fair for some people who have earned more money because they will not be getting back everything that they put in.

It is my understanding that the Social Security never was meant to be fair, it was meant to be a social insurance and not something—and to help poorer people. In 1950, you mentioned 35 percent was poverty level; 2001, we are only 10 percent.

Do we want a kinder, gentler society? Do we want a compassionate society? If we do, then we will continue Social Security and not rob it.

Mr. WALTHER. Thank you very much for your comment.

[Applause.]

Mr. WALTHER. This gentleman up here.

Mr. METZ. My name is Ed Metz and this is a question for Congressman Hulshof.

You stated that workers starting today would be projected to have to live to age 100 to get out of the system what they put in. Are you including in that the payments, the part of their payments that in fact go for Medicare and go for disability and survivor's benefits?

Mr. HULSHOF. Ed, I was talking specifically about, of the 12.4 percent. I am not talking about the Medicare, the additional 2.9 percent on Medicare. I am talking about that the—and I will see if the actuary agrees—that in real dollars, the real rate of return for someone who just graduated from the University of Missouri, who began working this summer and over a normal life expectancy and normal work history, that that individual will get back roughly a real rate of return of about 2 percent.

Mr. METZ. Well, there is a problem with both of those statistics because they are so gross and loose. They totally ignore, it seems to me, totally ignore the value of the Medicare benefits that are out there, they totally ignore the survivor benefits. Let us take the case of the workers who starts up, works 5 years and becomes totally and permanently disabled for the rest of his life, who has, by that time, acquired a wife and fathered two children, and see what kind of a return that person gets. And to the survivor's benefits. Suppose he dies 8 years after that and his kids are getting survivor's benefits.

There is just a lot of overlooking the benefits other than mere retirement. And those kind of figures factor in the total input that people pay into the system and ignore the tremendous amount of insurance that is there for disability and survivors and the Medicare component, with the kind of figures you have given.

Mr. HULSHOF. Well again to clarify, the numbers that I used were specifically related to retirement only. The Medicare portion, by the way, which as we go from the numbers, most recent num-

bers I have seen, from the 39 million beneficiaries that are looking to Medicare, the healthcare system for older Americans now, when the baby boomers retire will go to about 78 million seniors. Alan Greenspan told us in our Committee, our full Committee, that fixing Social Security will be a walk in the park compared to fixing Medicare, which even just from the great debate we have had already today, you know, fixing Social Security is no walk in the park. And so we will leave Medicare to another day. And again, I think everybody, the consensus is, Ed, on any changes to Social Security, if we make them—we could I guess just leave the system as it is—but no one wants to touch the survivor benefits, no one wants to—or they want to hold intact the disability portion. In that pie chart we saw, roughly a third of it, we are putting aside in these discussions and we are focusing on that 63 percent, as the chart is up now, on retiree benefits.

[The charts follow:]

AMERICAN ACADEMY of ACTUARIES

Perspectives on Social Security Reform

House Ways and Means Subcommittee on Social Security Listens to America

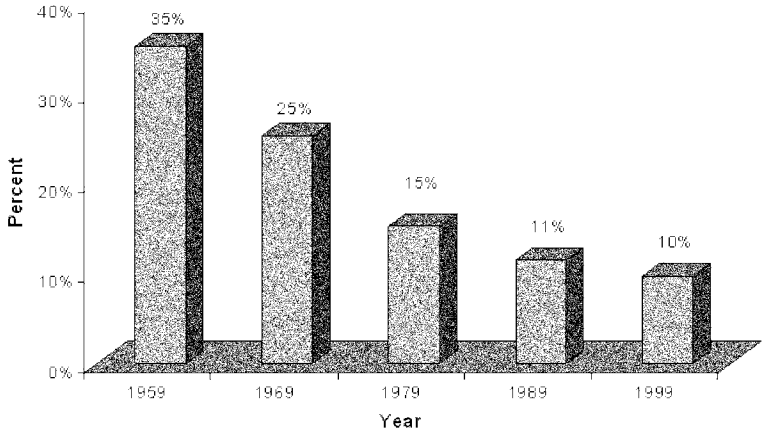
Presentation by
RON GEBHARDTSBAUER
SENIOR PENSION FELLOW
AMERICAN ACADEMY OF ACTUARIES

Monday, June 18, 2001
1:30pm – 4:00pm
University of Missouri Alumni Conference Center
Columbia, MO

The American Academy of Actuaries is the public policy organization for actuaries of all specialties within the United States. In addition to setting qualification standards and standards of actuarial practice, a major purpose of the Academy is to act as the public information organization for the profession. The Academy is nonpartisan and assists the public policy process through the presentation of clear analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, regulators and congressional staff, comments on proposed federal regulations, and works closely with state officials on issues related to insurance.

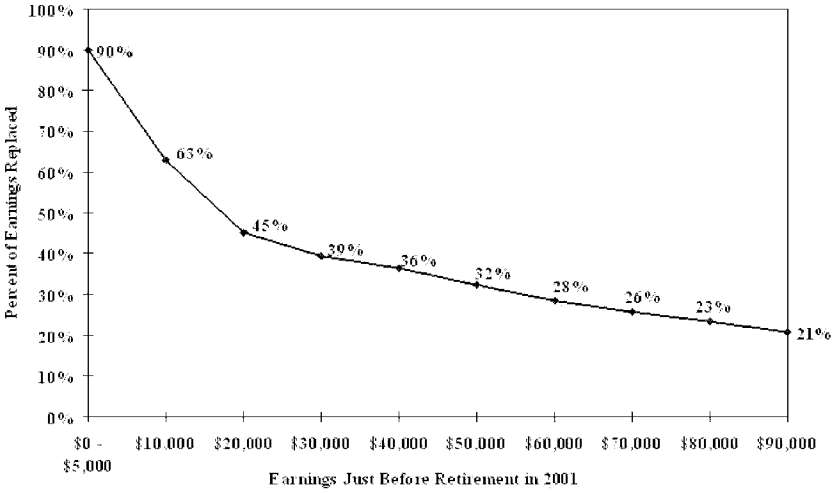
1

Poverty Rates For Those Age 65 and Over

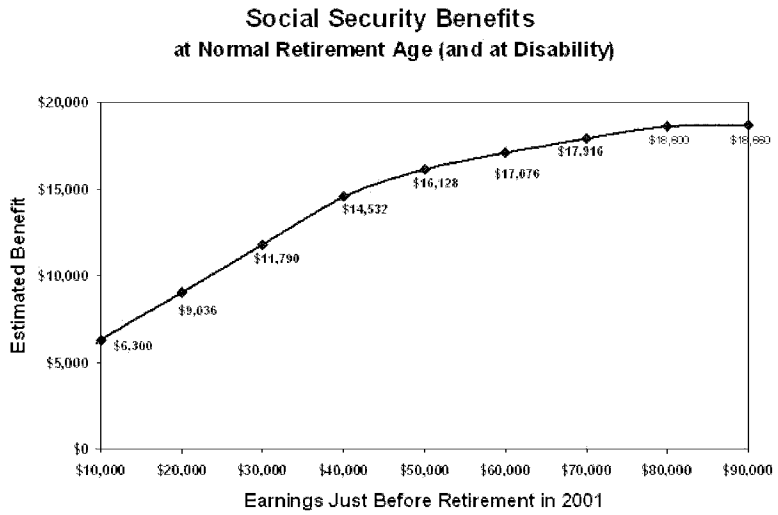


Social Security (along with SSI, Pensions, etc.) decreased the percent of elderly below the poverty level. The poverty threshold (for people over 65) is currently about $8,000 per person (~ $10,000 for a couple). The thresholds increase with CPI-U (which is subject to criticism). 2
Source: CPS (Current Population Survey) and ferret.census.gov

Social Security Replacement Ratios
at Normal Retirement Age (and at Disability)



See History of Provisions at www.ssa.gov/OACT/HOP 3
Past wages based on National Average Wage Index



This and prior graph show the primary goals of Social Security:
(1) Socially Adequate benefits (important to lower wage earners)
(2) Individually Equitable benefits (important to higher wage earners - the more contributed, the more received).

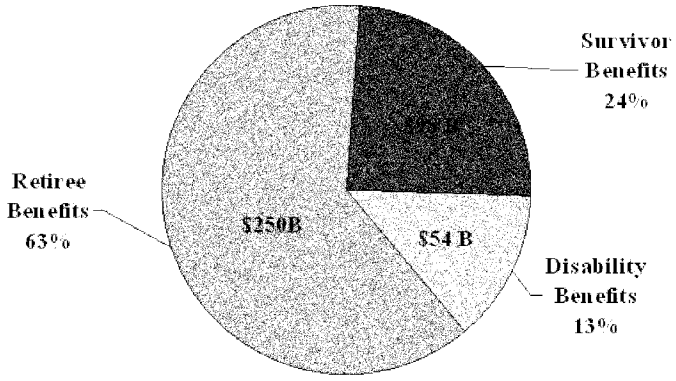
4

Social Security Normal Retirement Age

Year of Birth	Normal Retirement Age
1937 & earlier	65
1938	65 2/12
1939	65 4/12
1940	65 6/12
1941	65 8/12
1942	65 10/12
1943 – 1954	66
1955	66 2/12
1956	66 4/12
1957	66 6/12
1958	66 8/12
1959	66 10/12
1960 & later	67
Normal Retirement Age (NRA) = Age for full benefits	
Reductions for retiring earlier than NRA are as follows: 6 2/3% for each year before NRA (up to 3 years), plus 5% for each year more than 3 years	
If you work after NRA, your benefit is increased by up to 8% per year.	

5

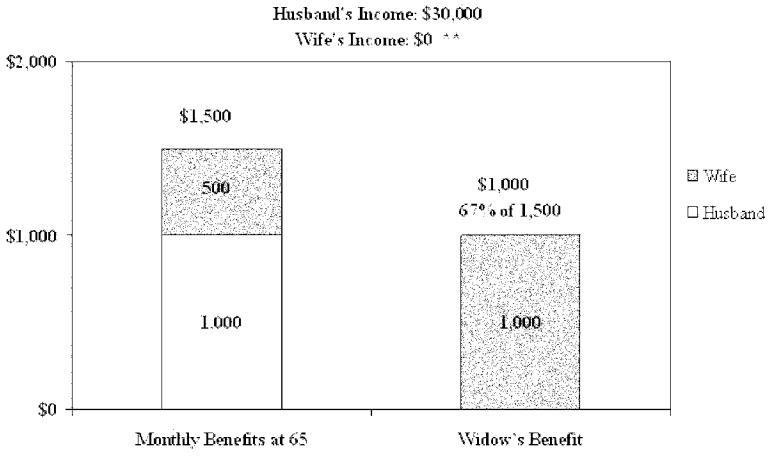
Social Security Benefits
Paid in 2000



Total Benefits Paid = $402 Billion

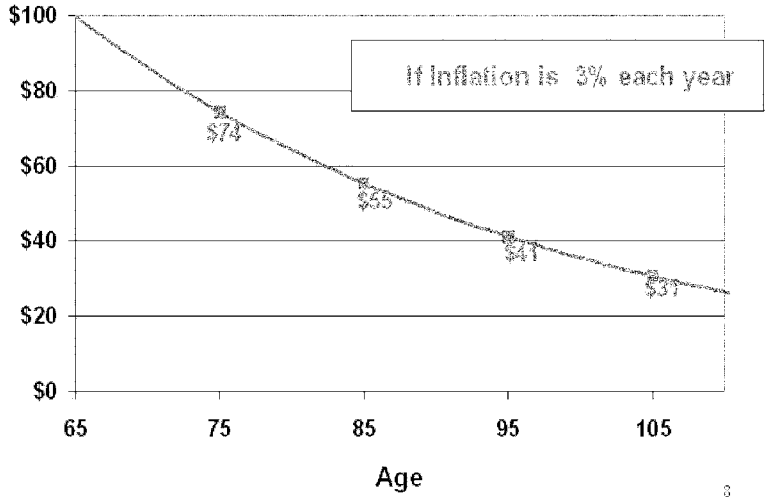
6

Social Security Spouse Benefits*



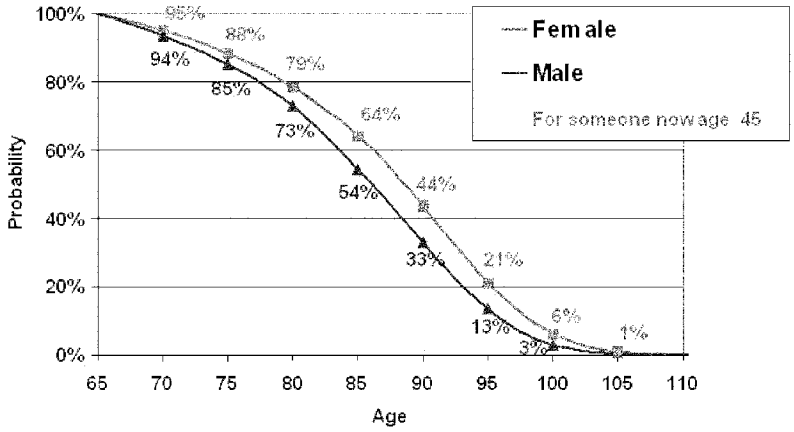
* Divorced spouses may be eligible if married for at least 10 years (may not be payable if remarried before age 60).
** Even if wife has average annual income of $10,000, she will get 50% of husband's benefit, because it is greater than the benefit based on her own earnings record. At his death, her benefit has a minimum equal to 100% of his benefit.

Purchasing Power is Reduced by Inflation



8

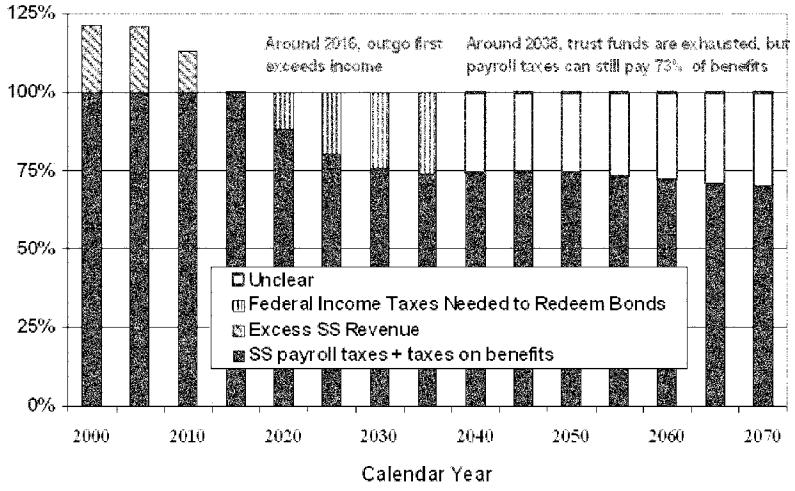
Probability of Living From Age 65 to Specified Age



1994 Group Annuity Mortality table without loading, with full projection
Ron Gebhardtsbauer, American Academy of Actuaries

9

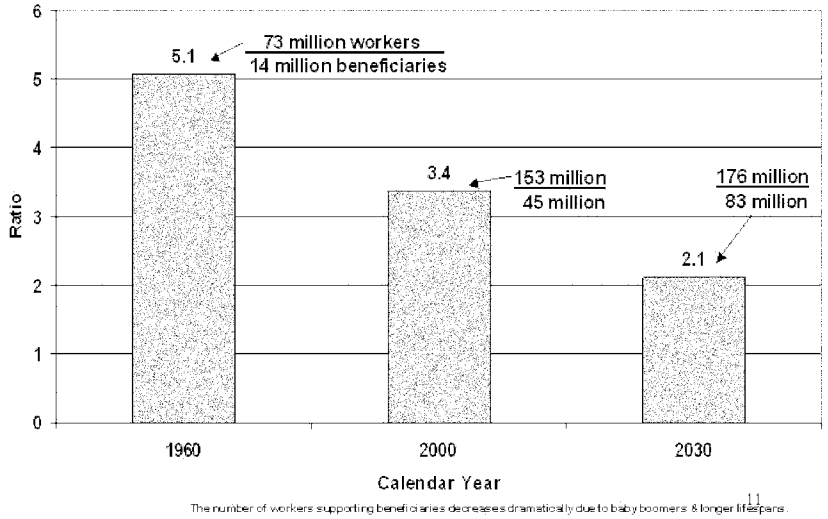
How Are Social Security Benefits Paid?



Redeeming SSA's Treasury Bonds requires General Revenue (surplus income taxes or more Deficits).
Increased deficits (or stock redemption) increases borrowing costs.

10

Workers per Beneficiary



11

The number of workers supporting beneficiaries decreases dramatically due to baby boomers & longer lifespans.
Source: 2001 SSA Trustees' Report, Table IV.B2

Reasons to Reform SS Soon

- Do it while economy is healthy
- More people included in reform
- Reforms are less drastic
- We can phase reforms in
- We can plan ahead for the changes
- We can restore faith in SS and government

No decision now, means the solution will more likely be to raise taxes

12

Options

	% Fix
• Decrease Benefits	
– Raise Retirement Ages	68% 26%
– Reduce COLA	37%
– Cut Benefits	26% 10%
– Affluence Test	75%
– Increase # of yrs in wage avg to 40	24% 10%
• Increase Taxes	
– Increase Tax Rate	53%
– Increase Wages subject to Tax	26%
– Tax SS benefits more	16%
– Include rest of State & Local govt.	11%
• Increase Investment Returns	
– Trust Funds	48% *
– Individual Accounts	**

13

- Funding sources: Additional Contributions, SS, General Revenue

Mr. WALTHER. Our next question comes over here.

Mr. HURRELL. Hello. My name is Aaron Hurrell and I would like to thank Congressman Shaw for arranging this meeting and Congressman Hulshof for hosting it and Ron Gebhardtsbauer for coming.

My question is revolving around your statement of expectation of future cost. As a recent college graduate, I am seeing a lot of my peers being forced to work as contingency workers or workers who participate in the labor force without benefits. And at any point does the American Academy of Actuaries take into account the possibility of the rise of individuals needing disability benefits and survivor's benefits by not getting the proper benefits by being in the labor force? Does that make sense?

Mr. GEBHARDTSBAUER. That is a good question, but I guess we are here mainly talking about Social Security. And for those people actually, Social Security is very important, because of the disability/survivor benefits and the retirement benefits. If you are a contingent worker, you may not be getting something through your employer. So hopefully you can save some. And a lot of people I talk to in their twenties are saving more. It is actually a good thing, some people have told me it is a good thing, that a lot of people are not sure they are going to get it, so they are actually saving more. So when they actually get it, they will have some savings in addition. I know my generation did not save enough, the baby boomers. So it is good to see that some people in their twenties are saving a lot more.

Mr. HURRELL. I wanted to see, when you are looking at your low, medium and high 75-year horizon, has it come into concern the fact that the amount of people who need disability benefits is most likely going to rise as working conditions become worse and worse and job protection is lacking, as the number one employer in America is Manpower and they are strictly contingency labor force.

Mr. GEBHARDTSBAUER. I do not know enough about the specifics of predicting future disability rates. I know it can go up and down depending on the economy, but I think a lot of people would also say, to counter-balance what you said, that it is becoming easier to work in today's economy because we have less really heavy physical jobs too. So I do not know, is it going to go up or down. I think probably what the actuaries did is they had a pessimistic and an optimistic assumption on that.

Mr. WALTHER. Thank you very much for your questions. We are going to come back to your questions in just a few moments, but Ron is going—on this part of our program, he is now going to offer some ideas for what the various options are for correcting the problem that we are currently looking at and analyzing. Ron.

Mr. GEBHARDTSBAUER. Thank you. You will get more chance—I sensed a lot of the questions were moving on into how to fix, so here we are and this will be the important part for us too, after I talk, get to find out how you all react, what do your tables think, what should the solution be.

When I go through my talk, you have some sheets and I think it looks like this, right? So get out the sheets that look like this. What I am going to say is right on this sheet and what you might want to do, I am going to go down from the top and I am going to talk about raising retirement ages or cutting the cost-of-living

adjustments (COLAs), all the way down. And after listening to me say here are the pros and the cons of a particular idea, you might want to circle that one and say I like that one or I do not like that one, because we are not only interested in knowing how you individually would want to fix Social Security, but the real important one is getting your whole table together after we are done talking about all these, and seeing if you can get the whole table to come up with a solution. It is sort of like being a member of Congress, I think they call it "Be a legislator." They have to be members of Congress for everybody in their districts. So you will find out what it is like to be a member of Congress, because each table I think has got some younger people and some older people in it. So you will get a feeling of what it is like to be a member of Congress.

[The Options for Strengthening Social Security table follows:]

Options for Strengthening Social Security

Actuaries Look at Options for Reforming Social Security

The **American Academy of Actuaries** has described below commonly discussed options for reforming Social Security, along with their impact on the solvency of the program's trust fund. You can use this to determine a combination of options that makes Social Security solvent again. (The total impact on solvency must equal or exceed 100%.) In addition, in order to keep Social Security solvent permanently, other adjustments would be needed in the future. This game is on our web site at www.actuary.org.

Option	Supporters say . . .	Opponents say . . .	% of Imbalance Fixed
Raise the retirement age to 70 by 2030 and keep adjusting the age as people live longer.	Since Social Security was enacted, life expectancy has increased from 61 to 76 years, and we are healthier at older ages. It makes sense to keep pace by asking people to work longer before claiming full retirement benefits.	Could be hard on people with physically demanding jobs or who are partially disabled; employers may not want an older workforce with associated higher health care costs.	**68**
		Alt: Accelerate increase in retirement age to 67 and index thereafter.	**Alt. 26**
Reduce the cost-of-living adjustment (COLA) by ½ percentage point.	A Congressional commission felt that the Consumer Price Index (CPI) was overstated by 1.1 percentage points, meaning the annual COLA is too high.	The Bureau of Labor Statistics decreased the CPI estimate by ¾%. COLA reductions are cumulative, which means the oldest retirees fall far behind in purchasing power. Very elderly women already have very high poverty rates.	**37**
Reduce benefits by 5% for future retirees.	Everyone should be part of the solution.	This would hit hardest people with low incomes, who often rely entirely on Social Security for all their retirement income.	**26**
Alternative: Tilt formula more. Phase in a reduction in benefits: 0% for low-income workers up to 5% for high-income workers.			**Alt: 10**

Option	Supporters say . . .	Opponents say . . .	% of Imbalance Fixed
Increase number of years used to calculate average wages from 35 to 40 years.	Encourages people to work more years, increasing U.S. productivity.	Hurts people who work less than 40 years, especially women.	**24**
Affluence Test: Reduce benefits for those whose total retirement income exceeds $50,000 per year.	This option preserves benefits for those most in need. A couple with total retirement income (including investment earnings & the value of Medicare) of $70,000 would lose 30% of their Social Security benefit. Over $120,000, they would lose 85%.	Discourages saving and encourages people to hide assets; changes Social Security from a universal program to one based on need. Social Security enjoys universal support and this might hurt that. Some people might try to avoid paying taxes if they didn't get anything for them.	**75**
Raise payroll tax on workers and employers by ½ percentage points each.	Increasing the Social Security payroll tax from 12.4% to 13.4% (gradually) won't hurt because real wages are going up and it would solve half of the system's financial problems.	Because we may also have to increase the Medicare payroll tax, total taxation could be burdensome, particularly for low-income people. Workers might save less, and employers might pay less to pensions.	**53**
Increase wages subject to Social Security tax.	Raising the current $80,400 limit to $100,000 would increase FICA (& SECA) taxes for those who can afford it.	Makes Social Security a worse deal for those with higher incomes, who will get little for their additional contribution. Costly for employers too. Erodes universal support.	**26**
Tax Social Security benefits like pension benefits.	Why aren't Social Security benefits taxed as much as pension benefits? Low-income retirees (30% of total) would still pay no income tax. It simplifies tax rules.	This will increase the taxes of middle-income people.	**16**
Include new state and local government workers.	State and local workers should pay their fair share to keep Social Security solvent.	These workers do fine under their own pensions; this would divert contributions from state and local government pension plans.	**11**
Invest 40% of the Social Security Trust Funds in private investments such as stocks.	Could boost return on investment with less risk to individuals; hiring investment managers and using indexes avoids government interference. Saves money outside government.	Social Security's assets could be 5% of the private market; stock voting and stock selection could be politicized. Could increase income taxes, interest rates, and borrowing costs.	(1) 48

Option	Supporters say . . .	Opponents say . . .	% of Imbalance Fixed
Create personal retirement accounts (divert 1 percentage point of payroll tax to a private account).	Could boost return on investment. Add-on could increase national saving and productivity. Saves money outside government. Gives individuals more control over investments and responsibility for retirement.	Individuals take on investment risk, inflation risk, longevity risk, and leakage risk. Large transition costs must be paid to cover current retirees and administrative costs could eat into returns. Could increase income taxes, interest rates, and borrowing costs. Add-on could reduce other saving and pension contributions.	(2)

[1] The report of the 1996 Social Security Advisory Council suggested that this would solve about 48% of Social Security's current financial problems. However, this is heavily dependent on the assumption for future investment returns.

[2] The Trust Funds would get less income. Guaranteed benefits might have to be reduced, but could be offset by benefits from personal retirement accounts for the average investor. Due to transition costs, however, some retirees in the next several decades may not do as well and we all may have to pay more in income taxes.

So let us go to the first solution. The first five options that I am going to talk about are cutting benefits. You know, if you do not have enough money, one way to do it is cut benefits. Another way to do it is increase your taxes or increase your return on your money. So the first five are decreasing benefits.

First one, raise retirement ages. As I mentioned before, we are living a lot longer. Generation X people here and younger are going to live longer than the people who are already retired. The retirement age is moving from 65 to 67 already and some people would say well, let us move it up to 67 faster or let us move it up to 70 and then let us index it.

What do I mean by index it? Well, if you keep Social Security in a static way, if you lock in a particular—all the provisions, eventually it is going to go out of balance and that is because people are continuing to live longer—a good thing. But what that means is that Social Security, you know, many, many years out there, it may be set perfectly right now so that it is balanced, but eventually it is going to go out of balance too. So one of the suggestions is that you gradually raise the retirement age every so often as people live longer. Another way would be to gradually increase the taxes or gradually cut the benefits. So there are three different ways of doing that, but this is one of them, gradually raise the retirement age.

So the pros are it makes sense, since we are living longer, we are healthier at older ages—actually, we are as healthy at 70 now as we were at 65 back when Social Security was created. So we can do now at 70 what they were doing at 65.

So those are some of the arguments that a supporter would say to this.

What do the opponents say? The opponents would say well, what do you do for people in physically demanding jobs? There are not as many of them out there, but there still are those jobs and they will have a hard time. Well, maybe you could retrain them and they can go back to work. Maybe that is not so easy.

What about slightly disabled people, people who are not disabled enough to get a disability benefit, but are not disabled healthy enough to continue on their jobs. One possible solution there is that Social Security actually makes the disability definition a little bit easier to meet at the older ages like 60 and above.

But anyway, there you have some of the pros and cons and so you might want to think about whether you think that makes sense, does that solution make sense. We are living longer, we are healthier longer, should we do it, or is there also concern for people in physically demanding jobs and we should look for some of these other solutions. So think about whether you like that one, mark it down and we will go on to the next one.

Another possibility is you could reduce the COLA. I guess first maybe I should explain the COLA. That is the cost of living adjustment. Remember earlier when I talked about inflation eating away your benefit? Social Security benefits right now go up by inflation every year, so that you can buy as much next year as you bought today. There was a commission that came out in 1996, informally called the Boskin Commission, and they said the government employees that are calculating that CPI number, consumer price index, they are over-stating it, it is really 1 percent or 1.1 percent too high. So they would say it is too high, we ought to fix it by making the COLA equal to CPI minus 1 percent. So if the CPI said 3 percent, you would get 2 percent of an increase each year.

So some people are concerned because they said well BLS has fixed that problem. BLS, Bureau of Labor Statistics, has corrected their problems and they now say yep, you are right, our inflation number is a little bit lower than it used to be in the past, it is lower by about three-quarters of a percent. So we think we have got it right now. So if you were to take CPI minus 1 percent and give us—you know, you are only falling behind by 1 percent a year, but what about people who live in retirement for 30 years? If you fall behind by 1 percent every year, after 30 years, you are about 30 percent behind.

So the opponents of this one would say it is particularly hard on people who live into their 90s, who have been retired for many years but lose 1 percent every year and it particularly hits women who are more likely to live to those 90s, and women are also where we have some of the highest poverty rates. As you saw earlier, poverty rates for retirees in general are 10 percent, but the poverty rates for single women in their 90s is like 20–30 percent.

Let us move on to the next one. Write down whether you liked it or not and we will move on to cutting benefits.

On what you have in front of you, it says we could cut everybody's benefit by 5 percent and for people here who are already getting benefits, I want to assure you, every time when I get up here and there is a Member of Congress with me, they always say we are not going to cut your benefits. So this particular proposal is only going to cut benefits by 5 percent for people who are not close to retirement. So if you are close to retirement or already retired——

VOICE. What is close? I mean——

Mr. GEBHARDTSBAUER. What is close?

VOICE. Like people just getting out of college now and then the gentleman over here said he was 55.

Mr. GEBHARDTSBAUER. This particular calculation I think was based on 60 or 55, I am not really sure.

VOICE. If you were 50 and disabled, this would really affect——

Mr. GEBHARDTSBAUER. Well, it will not affect you if you are already getting a disability benefit. It will only affect people who get disability benefits in the future.

VOICE. What about somebody who is 50 in 3 years and they become disabled.

Mr. GEBHARDTSBAUER. Again, it would be just people who retire in the future. And one of the reasons why they do not want to hit people who are close to retirement is because if you could retire and you heard Congress is talking about changing the benefits, you would quick retire. So they would probably not also do it to someone who is about ready to retire either, because otherwise it just forces everybody to call up Social Security and get their benefit.

So anyway, this would just affect people who retire in the future, it would be a 5-percent cut. You guys decide whether you think this is a good idea or not. The people who are the supporters would say everybody should be a part of the solution. The opponents would say yeah, but some people, all they get is Social Security, they do not have a pension plan and they have not been able to save or they did not save. And so if you cut Social Security, then you are cutting everything they have. If you have somebody who has got a big pension, they probably do not worry about a big cut in Social Security because they have the pension. But if you only have Social Security, and about a third of the people only have Social Security, then it is a concern for them. So they would say cut benefits, but do not cut them at the lower levels.

So you will see I have a little alternative. And I cannot even see it myself, but you see cutting benefits is going to fix 26 percent of Social Security's financial problems. So if you pick that one, you are one-fourth of the way to your solution. In fact, that is what you are going to have to do, you are going to get up to a 100-percent solution.

But if you did not like that one because it cut everybody and you only want to cut people at the higher end but not at the lower end, then it says that fix would be a 10-percent fix. So you would still have to do a lot more, choose a lot of other painful things in order to get your complete solution.

So let us move on to the next one. It is called an affluence test. There is an organization in Washington, D.C. that has suggested an affluence test or means test and what they would do is they would say if you have lots of assets or if you have really high retirement income, you do not need a benefit. My parents really liked this one when I gave them this quiz. They really like it, they say the millionaires should not get Social Security benefits at all, they do not really need it. But then I said well, this particular proposal, mom and dad, affects you. They are not millionaires, but they would lose about one-third of their Social Security benefit. Their Social Security plus their pension gets them around $40,000–$50,000. And this particular rule would say on top of mom's and dad's pension and Social Security, add them all up, what is your

retirement income, then we will add in the value of Medicare too. Medicare for my dad, $7,000; Medicare for my mom, $7,000. So wow, my parents are up here close to $60,000. So this rule would say you lose one-third of your benefits.

So the question is on this one for you, do you like that? It definitely would help Social Security by reducing benefits to people who do not need it. But here are some negatives.

Some of the opponents would say a means test can really cause some problems. And some of you maybe already know about this. If there is a means test that is going to say if I saved a lot, you know, my twin over here did not save, he took his salary and went to Europe every summer. I saved like a good person and so I have lots of money now at retirement, and my brother, twin brother doesn't have it. Guess what, he gets the Social Security benefit and I do not because of this means test. So it would discourage good things. It would discourage people like me from saving. It would encourage us to spend our money. In addition, it encourages maybe some bad things. It would encourage people who have lots of money to say, what can I do, I can give my money to my kids or I can put it in a trust or buy a fancy car and hide all this money, so now I can get my Social Security benefit. So Congress then would have to come up with rules saying well, you cannot cheat and hide your money like that.

So you can see, there are a lot of negatives on affluence tests too. So write down whether you like this or not and let us move on to the next one.

You could increase the number of years for determining your average wage. Right now, when they calculate your benefit at Social Security, they look at your total wage history and they look for your 35 highest years and they find out what was your average wage in those 35 years. So you have to work 35 years in order to get a full benefit. They could change that 35 and move it up to 40 so now you have to work 40 years in order to get a good benefit.

And so the positive, the proponents would say this is going to be good for America because it encourages us all to work 40 years instead of 35 years. You will work for a few more years in order to get a better benefit. So it encourages good things, we are more productive then.

The people who would be against it would be people who—well, if you worked 40 years, you would not mind because you would still get the same benefit if you worked 40 years. But suppose you only worked 35 years. Your benefit will be cut 10 or 12 percent, something like that. And that particularly can hit women because women often take time to have a child or to take care of their kids. And so the proponents do not want that to happen necessarily either, so they might say give women a 5-year dropout.

So if you like this idea of using 40 years instead of 35 years, that is going to help you 24 percent, so you are one-fourth of the way. But if you want to give dropout years to women who stayed home to have kids, then it is only going to give you about 10 percent. You should write that down because I do not think it is up there, it will only help you 10 percent of the way. So then you have got to find a lot of other solutions to help you.

I apologize, we need to move quickly because we want to hear from you.

We can also increase taxes. One way to do it is we can increase the tax rate. Right now, workers pay 6.2 percent of their wages into Social Security and your employer also 6.2 percent. What we could do is we could raise that by 1-percent total, ½ percent to you, ½ percent of your pay, you would have to increase your contribution to Social Security, your FICA tax, and your employer would have to increase the FICA tax to Social Security too by 1½ percent of pay for a total 1 percent of pay. That would fix about half of Social Security's financial problems.

But the question is—the proponents say hey, that helps solve it, but the opponents would say where are you going to get that money from? Are you going to take it away from your 401(k) plan contribution or your contributions to IRAs? You may hurt somewhere else on that retirement stool. Where is your employer going to get the money? The employer may take it out of your pension plan and say we do not have this money any more, so we cannot put it in your pension plan. Or we may have to have layoffs. Another possibility is they could raise prices, but in a global economy, it is very hard to raise prices, so they may have to cut their labor costs in some way.

In addition, some people would say we should not increase the tax rate for everybody, we should just increase it for people at the high end. So that takes us to the next one, increased wages subject to tax.

So you would still pay 6.2 percent of your pay to Social Security, but right now we pay it up to $80,400. If your income goes above that, then you do not pay Social Security tax any more. You do pay Medicare taxes above that, but you do not pay Social Security tax. And some people would suggest raising that, say raise the $80,000 to $100,000 really quickly. Normally every year it goes up a little bit, as we continue to earn more, but this would push it up to $100,000.

There is—one group that is concerned about this though is employers. Not only does the employee have to pay more, but the employer is going to have to pay more and so the employer is going to say where am I going to get that money, I cannot raise my prices, so I am going to have to cut labor costs somewhere. Where do you do that, do you cut it out of your pension or do you lay off people? So none of these are going to seem easy, this is not an easy lesson, these are all painful solutions here.

VOICE. I would just like to ask a question. I participated in a group at the end of 1998 called America Discuss Social Security.

Mr. GEBHARDTSBAUER. Yeah, I was the speaker for them too.

VOICE. We talked about taking the cap off of this and taxing 100 percent of the wages. And if you taxed it and increased their benefits proportionately, you would solve 68 percent of the problem.

Mr. GEBHARDTSBAUER. Right. I did not have very much space on here to give the details. This is increasing the wages subject to tax up to $100,000, but on what you have written down there, it actually mentions I think $100,000.

You are right, you could totally eliminate the cap. So that is another option, if you want to put that down, you can write that down, and how much was the percent—68 percent?

VOICE. Sixty-eight percent, and if you raised it and did not give them any more benefits, you would solve 91 percent.

Mr. GEBHARDTSBAUER. Right. So, this can solve a lot, but let us think about what this does. Somebody who does earn a lot of pay then is going to pay a lot more into Social Security, remember it is going to be 6.2 percent plus it is also your employer paying another 6.2 percent, so that is a total of 12.4 percent all the way up on your pay. So you are going to be paying in huge amounts and in your last solution, you are not getting anything more for it.

So that takes us to what some other countries I was telling you about where you lose one of the principles of Social Security, and that is the equity principle, that if you put more in, you will get a bigger benefit. And if you do not do that, then some people will say why am I putting more money in, I am going to try and maybe hide that, that I am making additional money.

VOICE. [Inaudible comment.]

Mr. GEBHARDTSBAUER. Okay.

[Applause.]

Mr. GEBHARDTSBAUER. The reason for this is Social Security was set up as an income replacement program. You want to replace people's income, but only up to a certain point, because if Bill Gates pays in a huge amount, you know, would it make sense for Social Security to get him a huge benefit too. And so that is a bit of a concern, so that is why they only had that limit. If you want to raise the limit though, you can put that down on your sheet.

But we need to move on to the next one. So thank you for your question.

The next one is tax Social Security benefits a little bit more. Right now, Social Security benefits get a break. If all you are getting is Social Security, you do not pay tax, but if all you are getting is a pension, say of $20,000 from your employer, then you would definitely be taxed. And some people say why do I not have to pay tax on Social Security, but I do pay tax on the pension. Somebody would say we should just tax them the same. And actually that does not affect low income people at all, because if you are making under $30,000 and you are retired, you are probably paying either very little or no tax because of all the exemptions and deductions. So it is not going to touch low income people. It will mainly hit the people in the middle income areas. And then the way it helps Social Security is that this additional income tax that you are paying on your Social Security benefits then would come back to Social Security and help Social Security.

So let us go to the last one of increasing taxes. We could get a little bit more money coming into Social Security if we made it truly universal. Right now, as pointed out over here, there are some States where the government employees in those States are not in Social Security. So if we bring them in that brings in a little bit more tax income into Social Security. Of course, we eventually have to pay them something too in the long run, but that would help you right now and it helps you by 11 percent.

Okay, we need to keep on moving because we want to talk about the third area of how can we make it better for Social Security. We could increase investment returns. And a lot of people would say this is the way to go, whether you do it through trust funds or whether you do it through individual accounts, it is going to give you a higher return. And it is not totally a free lunch because if Social Security gets a higher return and we give bigger benefits then to Social Security people, then it affects other areas in the economy, we may end up having to pay a little bit more in taxes, for instance, or it may affect the stock market.

But let us just concentrate on Social Security for now. It will give you a bigger return. Now some people would say put it in the trust fund and the trust funds will earn a bigger return and that will get you part way. But some people would say that they are real concerned about the government doing the investing. They would say if the government is doing the investing, then they will be picking the stocks maybe or they will be voting those shares and you know, how do we feel about that. Maybe it would be better—we want those high returns, but we would rather not have the government do it, so some of the Social Security money would be invested by all of you. We are not talking about doing the whole Social Security system this way, but maybe part of it would be moved into individual accounts that you would all have and then you would do the investing. So some people are wanting to get the higher return, but they do not want the government to do it. Some people actually also like this idea for another reason and that is they want to encourage more individual responsibility over corporate responsibility. And it also would mean that everybody has an individual account. Right now, low income people often do not have an IRA, they do not have a pension plan. So this would be a way for them to buildup their own wealth too. Some people do not have any wealth. So there are some pros and cons here.

How do you do it? I will just be real quick, it is really hard to see on the bottom of this slide, but it is going to require some money. Where do we get this money? We could increase the contribution. Right now, we are paying 6.2 percent of our wages, we could increase the money going into Social Security and that money would go into our individual accounts, it would be sort of our money.

Or we could get the money from Social Security. So some of that money from Social Security could be used to get this account. But if that is true, then you have to figure out how you are going to help Social Security because they have a little less money. Maybe you would reduce benefits from Social Security by 20 percent, but then you would have this individual account and that would maybe replace what you have lost in Social Security benefits. Now if you invested well, it would replace more than what you lost in Social Security. If you are an average investor, you might get about the same thing. If you are not a good investor, maybe you would get a little bit less. And so there, individuals would have a little bit more risk. And so that is the big issue on individual accounts, is better returns versus risk. Which do you want?

And finally, the last one is general revenues. Instead of the money coming out of our pocket or from Social Security, we could

get the money from general revenues. One of the concerns of opponents is they would say that a lot of that general revenue money has already been spent and so we may have to increase taxes some day in order to get those general revenues and avoid deficits.

I went through them real quick. I apologize that I went through it real quick. If you have some questions, we can do some questions and then we want you then to start thinking about what your table would suggest is the right solution.

Mr. WALTHER. Okay, our next question comes from this gentleman standing.

Mr. STEVENS. I am Tom Stevens, Columbia, National Federation of the Blind.

As you know, in the late 1990s, the earnings ceiling for senior citizens was—started to gradually increase and then Congress completely eliminated it. At the same time, we in the National Federation of the Blind were advocating that the ceiling be increased, we were delinked from the seniors so that now we continue in a very, very slow pace to increase that. A blind person who works 2,000 hours a year must lose some Social Security benefits if their income exceeds $14,000 a year, which I think is approximately the current ceiling. So my point here is to advocate the elimination, total elimination of that earnings ceiling.

Thank you.

Mr. GEBHARDTSBAUER. Thank you. Actually, I do not know enough about the issue to comment.

Mr. WALTHER. Our next question comes from the middle of the room.

Mr. COLLIER. Justin Collier.

Part of the reason I have heard some people state that the problem we have now is because there are fewer workers to support the retirees.

Mr. GEBHARDTSBAUER. Right. If you all have kids, we will do a lot better.

Mr. COLLIER. Well, that is what I was saying, the baby boomers—there were so many of the baby boomers and so few of us, Generation X if you want to say that; but I have seen some studies that we, our generation, are having more children.

I guess my question is is this just a phenomenon that is going to hit our generation or can we believe that the generation after us, our children, will not be affected by this since we are having more children? Is this just something that is going to hit us or is this something that is going to be something that we are going to have to come back to in the next 60 years and so on?

Mr. GEBHARDTSBAUER. When we talked about rate of return, one of the ways of increasing the rate of return is to have a lot more kids. But as the economist mentioned, we do not know whether it is going to go up or down. If you look to Europe as your example, you will see that fertility rates are much lower, they are having only one or one and a half kids per woman. But if you look at some of the immigrant populations that we have now, the fertility rates are higher. So the question is which direction will we go and it gets into that optimistic or pessimistic projection, which one—and the question also is with immigrants, after maybe one or two genera-

tions, their fertility rates become the same as the rest of the United States. So I do not know, that is a good question.

Mr. WALTHER. Our next question.

Mr. REED. I just wanted to address taxing the Social Security benefits. Right now a person about 21 can expect 2-percent rate of return. I can go to a local bank and get 6 percent on the conservative side. And I am being penalized about 4 percent a year. And you want to come back and penalize the benefit or tax the benefits that I have been taxed on for the past 45 years. I cannot support that tax and I probably never will.

Mr. GEBHARDTSBAUER. Just real quick, the 2-percent rate of return that we are talking about here, it is a real rate of return, so it is not a nominal. So I always try and talk nominal rates of return, I apologize for using economist language, but he will understand me. A 2-percent real rate of return is more like a 5-percent nominal rate of return, assuming 3-percent inflation. So your 6 percent is earning a little bit better than that, but it is not six to two, it is six to five.

And when your table gets together, you can talk about how to solve it, that is one of the ones I guess you are not going to pick.

Mr. WALTHER. Our next question comes from over here.

Mr. WEITKEMPER. I am Harry Weitkemper, I have lived through the Social Security, I was born before it started. I am a notch kid too, by the way. I am losing about $100 a month.

This is a fine gathering worried about the crisis on Social Security. Social Security has always been in crisis. It has been changed 25 times. All we have to do is adjust it a little bit. We have the COLA, now we need the LOLA, length of living adjustment.

[Laughter and applause.]

That will settle it all. Thank you.

Mr. WALTHER. Thank you, Mr. Weitkemper.

Well, certainly I think this discussion and Ron's presentation makes clear that what Mr. Shaw said a few minutes ago is exactly correct, that Congress does have the ability to correct the problem and this is a wonderful opportunity to hear from everybody as to what the best options are.

This lady right here has a question?

Ms. HURST. I am JoAnn Hurst, I am with the American Association of Retired Persons (AARP) and I wanted to ask about the individual account and would there be any guarantee at all, Social Security guaranteed benefit as it stands now. Could you talk a little bit about that.

Mr. GEBHARDTSBAUER. Okay, there actually are proposals out there where the government would provide a floor or a guarantee so that if you had terrible investments, and that could be because you are a bad investor or that might be because you retired in 1974, for instance, and the economy was down, and no matter what, everybody was not doing very well in the late 1970s in the stock market. So that is why some Members of Congress would put some guarantees in there and say if you do not do well, we will give you a floor so that you will not go below this amount. Of course, the only problem with that—and I do not have any numbers for you, but yeah, somebody said money, it will cost a little

bit of money. So then you would have to find some other solutions to pay for that.

Mr. WALTHER. That is a nice question. We have got a gentleman right here.

Mr. BRESTAJOCAMO. Chris Brestajocamo. Had a response to that and your response to it. The private sector is starting to take care of that problem too. There are a few mutual funds that are starting out that are guaranteeing principal. The management fees are a little bit higher but the private sector is creating mutual funds that will guarantee principal.

Mr. GEBHARDTSBAUER. Sometimes the way they do that is they do not give you the full return in good years and so they take a slice off the top in the good years so that if the stock market does really well, then they have that extra money to come in and guarantee. So there is a price to it.

Mr. WALTHER. There was a question back here.

Mr. SCHLIMME. Ron Schlimme from Columbia.

I have a question I think you addressed a little bit, but I did not get the clarification. On bringing in State employees. You are showing 11-percent gain. Now is that net liabilities or is that prior to liabilities? You are also having additional liabilities. You talked a little bit about that, but what is that 11-percent figure referring to?

Mr. GEBHARDTSBAUER. Okay, I am glad you asked because this is something that you all have to do pretty soon, is you are going to have to figure 100-percent solution and Social Security is short right now, there is not as much money coming in as going out over the next 75 years. So we need to fill that big trillion dollar number that Chairman Shaw mentioned. And this would fix 11 percent of that problem. But you have got to find something so that—add three or four or five of them together and get up to 100 percent.

Mr. SCHLIMME. I understand that, but is that factoring in liabilities of bringing those new employees in?

Mr. GEBHARDTSBAUER. That is a really good point. The way Social Security's projections and estimates and cost numbers are done, they just look over the next 75 years and they look at the amount of money coming in and the money going out. So it does not actually look beyond the 75th year, so bringing in some of these State and local employees brings in more cash now, but it does not pay them until after the 75th year.

So that is why when we want to balance Social Security, we not only need to get these things to add up to 100 percent, but it gets us back to something I mentioned earlier, if people continue living longer we are going to have to gradually say after the 75th year, we have to gradually raise the retirement age or we have to gradually raise the tax. They call that sustaining Social Security or sustainability. So you not only need to get into balance now by getting up to 100 percent, but you have to talk about what are you going to do to keep it in balance after 75 years.

Mr. SCHLIMME. So this would be in balance for the next 75 years?

Mr. GEBHARDTSBAUER. Right, right.

Mr. SCHLIMME. OK, thank you.

Mr. WALTHER. The next question comes back here.

Mr. BURROUGHS. My name is Oliver Burroughs, I am here for a conference, I am a foreigner from the State of Wisconsin.

I have three comments for the actuarial expert here. First of all, have you done any analysis, sir, if the trust fund were restored to its original status, that if the moneys were left there as they had been before they were withdrawn, what would be the impact.

Second question is if you have a situation where we are approaching two to one supporting the system, how can you tell us that the original goal of income replacement is going to be maintained in the long run.

And the third question that I would have for you, based on the first two, at the rate we are going, at what point in time will these fixes or these options put us in a position like the gentleman said a few minutes ago where we are back fixing it again?

Mr. GEBHARDTSBAUER. Let me see if I remember. You said that the money was taken out. I want to assure you again, as was mentioned on an earlier question, there is a trillion dollars in that trust fund, they have kept track of it. That is the amount of money that has been put in and none of that money has been taken. So that number is what will affect the 2038 date.

Chairman SHAW. Let me inject here.

Mr. GEBHARDTSBAUER. Thank you. I would love to have someone else——

Chairman SHAW. There is no money in the trust fund. There are government Treasury bills only. There is no money in the trust fund.

Excuse me, I am sorry.

Mr. WALTHER. Did you get your questions answered?

Mr. BURROUGHS. We got the first one answered. Now as we are approaching two to one, we will jump to the third one, we will give you a shot at the third one.

Mr. GEBHARDTSBAUER. The third one was how soon do we have to come back and fix this.

Mr. BURROUGHS. Right.

Mr. GEBHARDTSBAUER. If all we do is get up to 100 percent, then we may be back here in say 20 years trying to fix Social Security and that is why I mentioned that you also have to do part two to this earlier answer, which is we have to make Social Security sustainable by, in the long run if people are going to continue living longer, then we need to gradually raise the retirement age, cut the benefits a little bit or raise the tax a little bit way out there after the 75th year.

Mr. BURROUGHS. Then I would suggest respectfully, sir, that it is not going to become income replacement or even remain income replacement, and the entire fundamental purpose for which Social Security was created is going to have to change, if I am hearing what you are saying.

Mr. GEBHARDTSBAUER. I guess I did not understand.

Mr. WALTHER. The next question comes over here.

Ms. VALENSIA. Yes, I am Nancy Valensia, I live right here in Columbia. Kenny, I am glad to see you are here. You know, for a Republican—I am a Democrat and I do not have any problems with you, you are doing a pretty good job for us. I am glad to see you are here.

But to Mr. Shaw, I want you to take a message back to Washington for us.

Chairman SHAW. Hey, I am a Republican too.

[Laughter.]

Ms. VALENSIA. Yes, sir, to the Chairman of the Committee, so I will excuse Kenny.

I became disabled a long, long time ago, but I worked most of my life and I finally took the bullet—bit the bullet a couple of years ago and applied for Social Security disability. And, you know, living on less than $7,200 a year is not fun, folks, it is just not fun. But I am grateful it is there.

There is one option you have not mentioned, Mr. actuarial scientist and that is how about leaving it alone, just leave it alone.

You know, I have learned a little bit about numbers when I sat for an insurance exam and that was the number system is called the law of large numbers and it is so accurate that the Census Bureau does not have to take a sampling of but one in every five households to get a very, very accurate picture of the United States. And I know the actuarial scientists use that same law, insurance companies use it.

It seems to me that insurance companies have gained tremendous amounts by investing in those T-bills and those T-notes. The United States Treasury, there cannot be any better place on Earth to invest if you want a return on your money because if it does not exist, we do not exist.

Now I would like to see the people in Washington get this message: Keep your paws off of Social Security, because I do not believe your data. You know, in 1936 when Social Security went into effect, and my dad paid into it all of his life, he gained a little bit because he had become disabled when he was, you know, 50 years old. But it was never meant to do anything except to help the impoverished people in this nation. It was not meant to help the middle class or the persons who could well afford to pay for their own. Like Bill Gates, he should be paying—he should be, you know, giving a certain portion of his income into the Social Security system.

Mr. WALTHER. Thank you for your comments. I think we know what solution she is going to pick.

[Applause.]

Mr. WALTHER. There was a gentleman up here, this gentleman right here. This is the last one, we need to go on to our next exercise. We will come back—oh, I am sorry, we have got one more after that, that is right.

Mr. ONEN. I am Sam Onen from Columbia, Missouri.

We all hear that the Social Security system is a very good system to help the elderly people and we all also agree that we should keep it solvent and some of these options seem to be very good, but I have not heard any option like we have such a big surplus of budget and what about putting some of that surplus back into the Social Security system.

[Applause.]

Mr. WALTHER. That might be a question for our Congressmen.

Mr. HULSHOF. Keep in mind that there has been this firewall that has been established that is, as we pay payroll taxes and our employers match them, that that money should go toward the retirement system. Now Lillian makes a good point earlier, that Congress had, since the Johnson administration, borrowed from that

trust fund. As the Chairman points out, there are really no assets there, it is really just a piece of paper. And Lillian, my numbers I think are roughly $800 million that have been borrowed from, with another $700 million of interest, so roughly about $1.5 trillion is what we owe the system. And that by itself is not enough of course to cover the shortfalls.

But you raise a good point and that is—but it will take a change of the reason that we have had Social Security. Are we willing, and that is something your table can discuss, to tear down that firewall because when you say we have these budget surpluses, we are talking about income taxes that are surpluses. And are we prepared—that is what Congress will have to answer—are we prepared to say that we want to use income taxes to pay for retirement benefits through Social Security. If we are willing to do that, then that is—but that will be the first time ever that we have changed the fundamental nature of Social Security. Shall we use—take income taxes that we collect from you at work and put them toward Social Security. That is a question that you will have to help answer.

Mr. WALTHER. And one last question before we go to our next segment.

Ms. STEELE. My name is Ann Steele, I come from St. Ann, Missouri and I am a Member of the Older Women's League. I think some of you have already mentioned the fact that women make less in their lifetime, they have a lower ceiling, it is not equal pay and with the emphasis on childcare now picking up, we find that women on average are out of the work force 14 years. That really hurts when you are taking how many years you worked and you subtract 14 from it. No man has to do that.

Women get far fewer benefits from Social Security, so we see, I think you mentioned or someone mentioned that women—26 percent or 36 percent of the women, older women, are in poverty. We must fix Social Security—excuse me, I do not mean fix it—it is not broken. We just need to tinker with the edges, if that is what you call it, by doing some of these things. But we must do it so that it is fair to women because we are the backbone of the nation.

[Applause.]

Mr. STEELE. We raise the kids, we teach the kids, we take care of the kids and they are our future.

Mr. WALTHER. Thank you very much.

Chairman SHAW. Could I comment on one thing. I think all of us would like to associate ourselves with the lady from St. Ann. I think she made a good point.

One thing that I think does need clarification, under all of the plans involving individual retirement accounts, under all of those plans—and it is unfortunate that we do not have any percentages up there—but these would be in prequalified investment houses. It is not a question of just taking a piece of the payroll tax or taking a piece of the surplus and giving it to the worker and saying go invest it somewhere. Obviously that would not work, particularly for your more unsophisticated workers. So this would be a direct deposit from the Federal government into the individual retirement accounts. And there are two ways of handling that. Some would say take it out of the Social Security trust fund and pay it directly into the individual retirement accounts and on the other hand,

other people would say take it out of the surplus, as the gentleman right there was talking about, and out of the general Treasury and put it into the individual retirement accounts.

So this is not just a situation of throwing dollars up in the air and seeing where they come down. This is a closely—would be a closely regulated activity.

Mr. WALTHER. Thank you. We are going to go to the next segment. I apologize to those who have more questions. We will try to come back to you, but this is going to be perhaps an even more interesting component of our program. Ron, do you want to discuss it?

Mr. GEBHARDTSBAUER. Okay, I think I have pretty well described it already. You probably already have a feeling for what you individually want to do and that is tough, but even tougher now is to get the whole table to come up with a solution that gets you a 100-percent solution.

So talk amongst yourselves and come up with a 100-percent solution and then we are all going to give you a chance then—come up with a table reporter, someone who at your table is willing to report to the whole group what you decided.

There are lots of us around here who can answer questions. So just raise your hand if you have a particular question.

[Recess.]

Mr. WALTHER. Time is up, put your pencils down, make sure you put your name's on your test and that is it. Time is up, put your pencils down, the test is over.

We are going to—we are not going to have time to hear from every single table but if we can, what we would like to do is just hit a few of you. In order to make this process go as quickly as we can so that we are out of here at the time that we identified, we are not going to be able to take all of the comments that—I have had a number of requests for comments or additional questions, and I apologize that we are not going to be able to provide those to you—provide you an opportunity to do that at this point.

However, if you have additional questions or comments and you want those to be heard, you can—all of you have received a flyer for the President's Commission. You can send your comments in on that flyer. If you want to send in your comments to Kenny's office, Congressman Hulshof's office, you can do that. His address is here in town, it is 33 East Broadway, Columbia. I think the zip is 65201. And so Kenny would be more than happy to receive your comments.

I would ask, however, that if you do want to send comments in to Congressman Hulshof's office, that you do so within 2 weeks from today. There is—it is important that we get those comments in in a relatively timely manner.

So, having said that, let us go to this table over here. Do you have a representative from the table? If you do, stand up. Oh, and on this note, every one of you have probably filled out individual responses. You are welcome to take your individual responses with you, but please leave your table responses on the table and please identify those responses as table responses. Just write down on the top, table response, leave it on the table. We are going to collect those, they will be available on the Internet ultimately, either on

the THOMAS website or on the Government Printing Office website and I do not know what those addresses are, but it will obviously take us a little while—or take Congress a little while to tabulate the information, but it will ultimately be in a form that you can access.

So let us start with this table over here. Were you able to successfully arrive at a 100-percent solution?

VOICE. We did not arrive at a 100-percent solution, we arrived at approximately a 35-percent solution only.

[Laughter.]

Mr. WALTHER. Well——

VOICE. We did not make it through the discussion of all of the options. I can go through quickly, if you would like, where we came out on the options that were offered.

Mr. WALTHER. Why do you not tell us which ones you were willing to adopt.

VOICE. The two that we were most willing to adopt were increase the number of years used to calculate average wages from 35 to 40 years, with conditions. The primary condition being that there be some provision for women who drop out of the labor force for child rearing purposes, that they not be penalized for those years. With that condition, everybody at the table agreed with the 35 to 40 change.

Mr. WALTHER. Okay.

VOICE. The next most popular was the—just above that, tilt the formula more, phase in reductions in benefits, zero for low income workers up to 5 percent for high income workers. This is a reduction of benefits, phase in of 0 to 5 percent.

Mr. WALTHER. Okay.

VOICE. The next option which two of us could agree to was the first one which was to raise the retirement age to 70.

Mr. WALTHER. All right.

VOICE. We adamantly oppose the affluence test at the bottom and raising payroll taxes by 1 percent.

Mr. WALTHER. Okay, thank you very much. And how much difficulty was there in achieving the two solutions that you were able to agree upon?

VOICE. Not too difficult.

Mr. WALTHER. All right. And just a second, we have got another table. This table right here—no, no, this one right here. Do you have a spokesman? Yes, for that table. Mike Williams.

Mr. WILLIAMS. How did you know that?

Mr. WALTHER. You identified yourself a little while ago.

Mr. WILLIAMS. Oh, Okay, I thought you recognized me from calling in to your show.

Mr. WALTHER. Well, I did as well.

[Laughter.]

Mr. WALTHER. Now that you mention it.

Mr. WILLIAMS. We did not do very well. We decided to repeat the Presidential election and split ourselves right down the middle and if there happens to be a Supreme Court in the room, we need you quite badly.

We came up with 68 percent and that was the only one that we had a consensus on at all, and it was a fair consensus, it dealt with

raising the retirement age to 70 by 2030 and the vote there was 5 to 4.

So we voted dramatically against increasing the cost of living, COLA, and also of increasing the number of years used to calculate average wages from 35 to 40 because we felt that was grossly unfair to women.

Mr. WALTHER. Okay, with respect to raising the retirement age question, how did your table come out from an age standpoint? Did it make any difference?

Mr. WILLIAMS. Did anyone else track that?

Mr. WALTHER. Go ahead.

Ms. DEUTSCH. My name is Sara Deutsch. Jokingly I made a comment that I did not want to work until the age of 70, but the consensus at our table is that we are living longer and I did vote for raising the retirement age and so did Scott here and Sam, we all three did.

Mr. WALTHER. Thanks, I appreciate that.

Mr. WILLIAMS. The one that we were not able to get to, I think probably disappointingly, because it was the one that we were most interested in, was this issue of privatization, which I think is the real big issue anyway. We had a lot of discussion around the table but we were unable to reach any sort of consensus. Some of us felt leave it alone, do not privatize; some of us felt heavily privatize, even up to the 40-percent level.

Mr. WALTHER. Do you think that with more time, you might have been able to arrive at a consensus on that subject?

Mr. WILLIAMS. Only with the Supreme Court.

[Laughter.]

Mr. WALTHER. Well, they are good at solving problems.

How about this table right here.

Ms. WILSON. Hi, my name is Gemelo Wilson, I am a student here at the university.

We pretty much reached like 100-percent solution. We were very good at dealing with the issues and the options there and then making decisions upon it.

One of the number one solutions we had is to tweak the Social Security system by creating a Board of Social Security similar to the Federal Reserve, with a 12-year time limit. And for these persons to invest in a trust fund with both government and private area in a broad index fund with a rate of return that would be better and higher than individual accounts.

Our second was to raise the retirement age to 68 instead of 70, because we would like to enjoy our golden years.

The next would be to increase the tax rate to 6.5 percent. And I am not sure if there was a major consensus on that or not, but that was one of the options that we provided.

The fourth would be to increase the wage subject, which on the paper, it was 28 percent, so that was good.

And then a fifth and final, which is an addition to the options that were provided, was to eliminate the partial benefit and for them not to have the option to opt out at 62—I am sorry, yes, to increase it to 64. With the life expectancy increase, this gives people opportunity to work longer.

Mr. WALTHER. Very good. Thank you. I think we have time for perhaps one more table. Right here.

Ms. JOHNSON. Okay, my name is Emily Johnson, I am a student here at the university.

Mr. WALTHER. Emily Johnson.

Ms. JOHNSON. Emily Johnson, yes.

Our table, we thought we came up with some pretty good ideas. The first was we liked the idea of the affluence test, we did not like the idea of doing it at $50,000 or $70,000 because we thought that penalized people who really could use the money. We liked the idea of raising it maybe to around $100,000 or more, because those people can likely afford to pay more.

We also liked the ceiling test. We kind of maneuvered, changed that a little bit though because we did not like the idea of taxing—only taxing employers up to $100,000 and having the employees match the full income, because we thought that that would alleviate some of the problems of placing a heavy burden on businesses.

Also we also looked at the idea of raising the retirement age perhaps and also including State and local government officials in that.

Mr. WALTHER. And how much did—did you tabulate your results?

Ms. JOHNSON. We tabulated it but because we sort of changed around and we changed them a bit, we think it might be around 100, but it's pretty approximate.

Mr. WALTHER. Okay, great, thanks so much. Thank you all.

Kenny, do you want to——

Chairman SHAW. I want to thank all of you who were able to be with us today. I think that the interest that has been shown, and I think—and I was walking around and listening to the various tables and listening to some of the debate that goes on, I think probably all of you now are over-qualified to run for Congress. [Laughter.]

But I would also tell you something, which I think might come as a bit of a surprise. I think most of you now know more than about 50 percent of the Members of Congress. I say that in sincerity, because in talking to the talk show hosts on Sunday, they have been letting the candidates for various office and the people who appear on these morning talk shows get away with murder. They do not understand it, and I am talking about the best of them. I have had some of them in my office discussing it with them. I have had George Will and Dave Broder, they understand it very, very well, but there are a lot of names that are even more familiar than theirs that do not really understand how the system actually works. I think you probably do not know all the ins and outs, but you certainly have a much clearer picture than over half the Members of Congress and a lot of the people in the media.

This has been a very worthwhile exercise. I wish we had more time to give you more time to come up with solutions because Kenny and I are really looking for them and want to bring them back to Washington. But I think one of the things that I hope is very clear and that everyone in this room really understands is that there is a pending crisis out there. We can do something about

it and the Congress I think should be pushed into action so that this system will be here for the younger people.

I want to thank our moderator and our actuary that did an excellent job, both of them.

[Applause.]

Chairman SHAW. And also I want to congratulate all of you for sending us such a fine Congressman as Kenny Hulshof.

[Applause.]

Chairman SHAW. I can tell you, you do not just show up with a pretty face and get put on Ways and Means. And he has been a very hard-working Member, a very bright Member of the Ways and Means Committee in the Congress. Our jurisdiction is huge, we have jurisdiction over all of—actually it is about 80 percent of the budget. We have jurisdiction over welfare, trade, income tax, Social Security and Medicare. The jurisdiction of our Committee is just gigantic, it just eclipses any other three or four committees of the Congress. So this is the type of work that your Member does for you every day in the Congress and we just hope—and I will insert this as a political statement—I hope you keep him going as long as he wants to be there, he does a great job for you.

Thank you.

Mr. HULSHOF. Thank you.

[Whereupon, at 3:51 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Statement of the American Association of University Women

Social Security: Why Reform is Important to Women

For more than a century, the American Association of University Women (AAUW) has promoted equity in the workplace, in education, and in all aspects of women's lives. AAUW has long been committed to a Social Security program that improves the social status and economic security of the elderly. As the 106th Congress considers proposals to reform the current Social Security system, the economic wellbeing and security of women must be safeguarded. It is critical that the following factors be considered:

Women are more dependent on Social Security than men.

Women earn less than men. For every dollar men earn, women earn 74 cents, which translates into lower Social Security benefits. In fact, women earn an average of $250,000 less per lifetime than men—considerably less to save or invest in retirement.

Women are half as likely as men to receive a pension. Twenty percent of women versus 47 percent of men over age 65 receive pensions. Further, the average pension income for older women is $2,682 annually, compared to $5,731 for men.

Women do not spend as much time in the workforce as men. In 1996, 74 percent of men between the ages of 25 and 44 were employed full-time, compared to 49 percent of women in that age group. Women spend more time out of the paid work force than do men in order to raise families and take care of aging parents.

Women live longer than men. A woman who is 65 years old today can expect to live to 85, while a 65 year old man can expect to live to 81. Because women live longer, they depend on Social Security for more years than do men.

Women need guaranteed benefits they can count on.

The poverty rate among elderly women would be much higher if they did not have Social Security benefits. In 1997, the poverty rate among elderly women was 13.1 percent. Without Social Security benefits it would have been 52.2 percent. For elderly men, the poverty rate is much lower, at 7 percent. If men did not have Social Security benefits, the poverty level among them would increase to 40.7 percent.

Social Security benefits are the only source of income for many elderly women. Twenty-five percent of unmarried women (widowed, divorced, separated, or never married) rely on Social Security benefits as their only source of income. It is the only source of income for 20 percent of unmarried men.

Older women of color are poorest in retirement. Only 25 percent of African American and 33 percent of Hispanic women have income from savings or assets. The poverty rate is particularly high among African American women over age 65, at 28.9 percent.

AAUW believes that any Social Security reform must increase the stability and security of retirement income, including maintaining and protecting:

• *Full cost of living adjustments.* The current Social Security system protects against inflation, a crucial protection against the erosion of benefits. This provision is particularly important to women because they live longer, rely more on Social Security, and lack other sources of income. Pensions and personal savings accounts are rarely indexed to inflation, and retirees may outlive those assets.

• *A progressive benefit formula.* Social Security should continue to replace a larger share of low-income workers' past earnings as a protection against poverty, and beneficiaries who earned higher wages during their work life should continue to receive benefits related to their earnings history. The current benefit formula compensates women for lower lifetime earnings.

• *Spousal and widow benefits.* Social Security's family protection provisions help women the most. Social Security provides guaranteed, inflation-protected, lifetime benefits for widows, divorced women, and the wives of retired workers. Sixty-three percent of female Social Security beneficiaries age 65 and over receive benefits based on their husbands' earning records, while only 1.2 percent of male beneficiaries receive benefits based on their wives' earning records. These benefits offset the wage disparity between women and men.

• *Disability arid survivor benefits.* Social Security provides benefits to three million children and the remaining care-taking parent in the event of premature death or disability of either working parent. Spouses of disabled workers and widows'—workers who die prematurely also receive guaranteed lifetime retirement benefits. These benefits have enabled women to hold their families together under tragic circumstances.

For more information, call 800/608–5286 AAUW Public Policy and Government Relations Department June 1999.

Statement of Merton C. Bernstein, Coles Professor of Law Emeritus, Washington University

SOCIAL SECURITY SERVES ALL GENERATIONS
SOCIAL SECURITY'S LONG-TERM FINANCING IS NOT IN CRISIS
PRIVATIZATION DAMAGES WOMEN, MINORITIES & THE YOUNG

Social Security serves all generations:

It protects children against the full loss of a parent's financial support if a worker dies or becomes disabled;

It provides families of working adults dependable income if disablement, retirement or death end their working years;

It assures working people that their parents and grandparents have retirement income;

It protects all benefits against erosion by inflation with annual COLA.

Social Security's long-term financing is NOT in crisis:

Official projections for Social Security financing have improved over the last several years because of improving productivity and high employment;

Improved productivity helps offset demographic changes;

A tight labor market spurs employers to invest in advanced technology to improve productivity and encourages more immigration;

Raising the cap on covered wages to historic upper limits would substantially improve Social Security financing.

Privatization would especially injure women, young people and minorities:

It requires heavy government borrowing and cutting future benefits;

Women, who outnumber men as beneficiaries, and other lower wage workers depend heavily on Social Security benefits; reducing benefits especially hurts them;

Benefit cuts and tax hikes would be phased in, thereby falling most heavily on today's and future young working people.

COUNCIL FOR GOVERNMENT REFORM
ARLINGTON, VIRGINIA 22201
June 18, 2001

Testimony of Charles G. Hardin
President, Council for Government Reform
U.S. House of Representatives
Committee on Ways and Means
Social Security Subcommittee

Dear Chairman Shaw:

On behalf of the 500,000 supporters of the Council for Government Reform, I thank you for the ability to submit this testimony for the written record. You and your subcommittee are to be commended for your interest in jump-starting the national debate on the future of Social Security.

The Council for Government Reform (CGR) is a non-profit grassroots advocacy organization concerned with seeking responsible and limited government. Our supporters are overwhelmingly senior citizens, most of whom survive on little more than their monthly Social Security checks. Yet they are concerned with the future and want their children and grandchildren to have a secure retirement.

Much has been said in recent months about the need to change Social Security, but we believe that there is little public understanding of the truth. Social Security in its current form cannot continue. As the 70 million baby-boomers begin to retire, the pyramid of Social Security's pay-as-you-go structure will collapse. Millions of workers will be left holding the tab and will face tax hikes higher than can be imagined. Tens of millions of boomers will see benefits far reduced from what they were promised and younger generations will be loath to pay the taxes to support them.

That is why CGR believes that we must use the prosperity we share today to move Social Security toward a self-financed system of retirement. We support the idea of voluntary personal retirement accounts (PRAs) based on the following principles:

First and foremost, the benefits of current and near retirees must be protected. Today's retirees should not be shortchanged and those nearing retirement have made their plans based on today's system.

Second, younger workers should be given the *choice* to save a small portion of their *current* payroll taxes in a *voluntary* PRA. Payroll tax increases or add-on accounts are not a viable option for American workers.

Third, workers must own and control their PRAs and be able to pass their accumulated wealth on to future generations. This is particularly important to lower income workers who may have no other means to create wealth for their families.

Lastly, the Social Security system must continue to provide a government guaranteed safety-net for retirees in need.

Most American are unaware that the U.S. Supreme Court has ruled twice that Social Security benefits are not in any way guaranteed. They are dispensed on the political whim of Congress; which may cut, modify, or eliminate them. In a nation conceived in liberty, allowing politicians such control of how we live after we retire is not acceptable. Personal retirement accounts are the best way to give American workers the opportunity and responsibility to control their own retirement futures. They take retirement planning out of the political arena and return it to those with the most at stake—retirees and their families.

You and your committee are to be commended for opening a national dialogue on what is the most important fiscal decision our government will make. If we don't act now, over our children's lifetime, retirement spending will eventually consume 100% of the federal budget, leaving no money left for programs such as education, defense or transportation.

While most of CGR's supporters will not directly benefit from a modernized Social Security system, they do expect their government to be fiscally responsible. Using the power of compounding interest that exists in today's private markets to secure a retirement plan for future generations of American workers is the responsible thing to do.

I urge Congress to not take this matter lightly. The decisions grow harder with each passing election cycle. Please don't squander any more opportunities. Enact voluntary personal retirement accounts before it is too late.

CHARLES G. HARDIN
President

Statement of Myrna Fichtenbaum, Gateway OWL, St. Louis, Missouri

My name is Myrna Fichtenbaum. I am a member of the Gateway OWL Chapter in St. Louis. OWL is a national organization and the only grassroots membership organization focused solely on issues unique to women as we age. I can say unequivocally that women of every age are the face of Social Security. We have a very clear and unique stake in the program. Social Security provides valuable social insurance, enabling young widows to take care of their families, women with disabilities to live with dignity, and older women to retire after a lifetime of hard work.

In fact, **women are 60 percent of Social Security beneficiaries over 65—and this number climbs to 72 percent among beneficiaries over 85.** Women depend on Social Security's guaranteed, lifetime benefits. Alarmingly, 27 percent of women over 65 rely on Social Security for 90 percent of their retirement income.

If Social Security's promise of guaranteed, inflation-adjusted benefits is broken through privatization, then over a quarter of today's older women would find that virtually all of their retirement income is in jeopardy. This is hardly an acceptable outcome.

The three-legged stool of retirement has never been reliable for women. Nearly 40 years after the equal pay act women make less money than men, often for comparable work. Women in their 50's, which is for most the highest wage-earning years, earn only 2/3 of what men earn for the same or similar work. For minority women, the figures are even more disparate. The hard reality is simple: you can't save money you don't earn and you certainly can't invest money you don't have.

At a time when policy makers can't decide what to do about long-term care, America still looks to her Mothers and Grandmothers for caregiving. The average women loses 14 years of workforce wages to care first for small children, then ailing parents, and finally to frequently retire early to care for sick spouses. These are also years in which she is not vesting in a pension or earning Social Security credits. So women end up with a lopsided stool, leaning heavily upon Social Security's dependable benefit. This is even more true for minority women.

OWL is working to shore up all legs of the stool by advocating for pay equity, urging America to value its caregivers, and pushing for women-friendly pension rules and we refuse to stand by and watch Social Security—the strongest leg—be dismantled. We caution Congress and the Administration, don't pull the rug out from under the feet of America's Grandmothers. The hand that rocked the cradle also votes.

We do this not just for those who are Grandmothers today, but also with the knowledge that today's young Mothers are still the group most vulnerable to poverty in retirement tomorrow. The President's newly appointed Social Security Commission met in Washington, D.C. just last week. The President's mandate that his Commission's recommendations include some form of privatization subverts the social insurance principles upon which Social Security is based. Instead of pooled resources and shared risks—the entire community caring for each other—a privatized Social Security will mean every person for themselves. The very idea of privatization—partial or otherwise—is a red herring. Privatization does nothing to address Social Security's so-called long-term solvency issues. In fact, it actually speeds it up by 14 years. Since that would be the case, why would privatization be proposed as a solution for this alleged, possible problem?

As one of our members said, "the financiers will make a killing!" It is difficult not to concur with this assertion and to conclude that this will happen at the expense of hard working, decent families.

If you lose your spouse, incur a disability, work jobs that pay a lifetime of low wages, or provide care for this country's young, old and infirm—as America's Mothers and Grandmothers are more likely to do—you will have to sink or swim on your own. So our message to Congress and the Administration is simple: privatization does not work for women, and, if it doesn't work for women, it won't work for anyone else.

Statements of Aaron Harrell, Syracuse, New York

Like many young Americans, I was unaware of the full range of benefits that Social Security offers. It was not until I came to Washington as an intern at the 2030 Center that I came to a fuller understanding not only of the Social Security system, but also of the importance of protecting it.

It was not too long ago that a ten year old lost his father to heart disease, and I am sure he wondered what was going to happen to his family as he stood on the frozen ground by the open grave on that crisp, icy Christmas Eve morning. How was his mother going to raise five boys on one salary in rural Upstate New York in the mid 1950s? Had it not been for Social Security survivors' benefits, this family of six may not have had the opportunities to pay their bills, and provide the basic necessities of food, water, and shelter.

Thirty years have passed; the boy is now grown and has his own family. Just like his father before him, he works hard to meet his family's needs. One day, a nasty fall at work results in a disabling back injury. Because his injury does not fall within the eligibility criteria established by the Social Security Administration, he is unable to collect a disability benefit. A little over a year later the family savings are depleted and his wife's income is barely enough to support them. The costs of raising and maintaining a family of five kept the specter of need at the door. Two years later, their financial situation unchanged, the man's oldest son left home to ease the burden on his struggling family.

As the son of that man, Social Security's effect on my life is obvious. Now, that I am grown and am looking forward to a family of my own my personal experiences compel me to do whatever I can to preserve Social Security for my children, in the event that I can, for whatever unforeseen reason, no longer provide for them.

The current approach to "saving" or "reforming" Social Security that is offered and supported by our President appears on the surface to be a legitimate improvement. But upon a closer inspection, privatization plans clearly increase the potential for unnecessary human suffering and enrich a small number of bankers and brokers at the expense of working people. From an actuarial perspective, the Social Security system is not in a crisis, nor are any drastic changes needed; in fact, no one disputes that full benefits can be paid until 2038, without any changes being made. In the 2001 Trustees Report, the American Academy of Actuaries stated that an increase of 1.86% in the payroll taxes would bring trust funds into balance for next 75 years. They also propose an across the board benefit reduction of 13%; although these proposals are painful, they do not compare to the pain that will be caused by conversion of Social Security into a system of Individual Retirement Accounts, as requested by President Bush.

A diversion of any funds from the current system into these new accounts will put an unnecessary strain on the Social Security system, as less money will be available to meet demand, at a time when the Baby Boom generation is beginning to retire and collect benefits. A diversion of only 2% of F.I.C.A. will create a trillion dollar deficit over a ten-year period, and twice that the following decade. How can we expect to provide benefits when the Trust Fund has no income? The general revenue surplus has been nearly entirely squandered on a pandering tax cut, so the only recourse left will be to raise taxes, raise the retirement age, or slash benefits. The benefits of establishing Individual Retirement Accounts, in both the short and long terms, do not outweigh the real and potential costs to the American workers of tomorrow.

It seems the rhetoric in the area of Social Security reform deliberately avoids discussing privatization's effect on the Survivors and Disability aspects of the system. Again, it seems that a lack of funds will lead to drastic cuts in these programs, as well as to retirement benefits. How will you explain to the millions of recipients that benefits are no longer available and poverty waits just around the corner for them? Some recent figures from the National Urban League's reports give a face to a portion of this group of beneficiaries. One million children, currently benefit from the Disability and Survivors part of the system.

Private accounts do more than short current beneficiaries. By design Individual Retirement Accounts punish young workers who become disabled, as their accounts will not have had enough time to increase in value, leaving these unfortunate workers and their families to their own devices. The same goes for the young family that loses a parent; their account may also lack the funds necessary to meet basic needs. Why would we want to create a situation whereby millions of Americans can see their lives and livelihoods destroyed in a blink of an eye? The current system protects not only the old, but also the young—and all those that fall in between. This is to say nothing of the potential for loss of funds invested in the stock market, which will leave future retirees to depend on retirement benefits that leading economists predict will have to be cut by over 50% to meet privatization's costs.

To go from a system that's guiding principle is that no working man or woman, and no child of a working man or woman is left behind to a system that relies on the law of averages is one that will prove to be costly for America. The current Social Security system, despite its flaws, guarantees benefits, while the "reformed" system would not be able to make that same promise. The people who stand to gain

the most from this reformation are those individuals and agencies that will manage the hundreds of millions of new Individual Retirement Accounts. When one considers the quantities of money these individual retirement accounts could generate annually just in fees, it is plain why the corporate and financial worlds favor privatization. The average American worker, however, has nothing to gain from privatization, and much—including social insurance during his or her working years and a guarantee of a secure retirement income—to lose.

Social Security does not need to be "reformed"; it is an excellent family-based economic program. However, it does need to be strengthened in light of the changing demographics of our population. By increasing funding to shore up Social security for the next generations, we can ensure a financially secure future not only for ourselves, but also for our parents, our children, and our children's children. An oft-asked question in formulating public policy is "Which do we seek to improve: people or profit?" For me, the answer has to be people. And that is an answer embodied by Social Security—America's most beloved, most successful, longest running social program. The American people have repeatedly demonstrated their strong commitment to Social Security, to helping people, even when it costs a little profit. I hope every Member of Congress will consider this question during discussions of Social Security's future, and I hope that we can all be proud of the final answer.

I, Aaron Harrell, respectfully submit this statement to the Ways and Means Committee. I speak to this committee as a private citizen and do not represent any persons, clients or organizations.

Aaron Harrell

As far as actuarial projections are concerned, I believe that the rise in contingency workers or those workers that are employed w/o benefits increases,[1] so will percentage of people requesting Disability and survivors benefits.

[Typed from hand-written statement.]

Statement of the Kansas City Labor Council, AFL–CIO

Social Security is critically important to all of America's working families. Its protections—guaranteed, lifelong benefits, full adjustments to guard against cost-of-living increases, increased benefits for families, greater income replacement for low-income workers, disability and survivor benefits—are the bricks and mortar of economic security in the United States.

Its monthly checks to retirees are the difference between dignity and poverty for millions, and eleven million families depend on Social Security to replace the income of a deceased or disabled spouse or parent. Through Social Security, all Americans work together to protect each other against risks that would be devastating if faced individually.

We all know that we must strengthen and protect Social Security for the future. Government experts predict that Social Security has the resources to pay full benefits for several decades, until 2038, and that after that time there will be enough money to cover about 73 percent of promised benefits. We do need to take action to strengthen and protect Social Security, but we must also take great care to ensure that the decisions we make are fully considered and understood by Americans. The stakes are too high to do anything else.

Unfortunately, President Bush has decided to preempt the deliberative process. He has already come to a conclusion. He wants to replace Social Security's guaranteed benefits with risky private accounts. He has appointed a commission made up entirely of individuals who have already endorsed privatized individual accounts and ordered them to come up with a plan to substitute those accounts for Social Security benefits. This is the wrong starting place.

Given Social Security's importance to our economic security, working families must be engaged and active participants in the debate over the best way to strengthen the system so that it continues to provide economic and retirement security. Ultimately, working families—not a commission of ideologues, corporate executives and retired politicians—must decide the future of Social Security.

Working families need to know the full story of how privatized individual stock accounts—which weaken Social Security's finances—will impact their benefits. Unfortunately, today's hearing does not address these questions. It is a pep rally for

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[1] In labor force.

a bad idea rather than a serious effort to inform and understand. Most importantly, the public needs to know how the huge and unavoidable costs of transitioning to private accounts will be paid and who will foot the bill.

Privatization is an extraordinarily expensive proposition. There is no way around the costs of changing over from Social Security's guaranteed benefits to privatized individual accounts. The tab for privatization can be paid for in three ways—use the on-budget surplus, increase taxes, or cut benefits. The President has taken the first two options completely off the table with his millionaire tax cut that eliminates the budget surplus and a no-new-taxes promise. That leaves benefit cuts.

The big question for the President and his commission is: Whose benefits get cut and by how much? Will they raise the retirement age, which is already going up to 67? Will they cut the system's inflation protections? Will they cut core benefit levels? Will they cut benefits for spouses, divorced spouses, children? Will they penalize people who do not work 35-year careers? The commission cannot pay for the President's individual accounts without answering these questions.

Simple arithmetic tells us that setting up individual accounts, using Social Security resources and complying with the guidelines required by President Bush, means that guaranteed benefits must be cut for workers under 55 by 40 percent, on average. And even under ideal circumstances, workers will see a large cut of 20 percent in their total benefits after counting in the individual account. That says nothing of the additional cuts that will hit workers who are not fortunate enough to have full careers with steady earnings or were not lucky enough to live in a time when stock market returns were high. And this does not even begin to figure in the drastic hit to Social Security's family benefits for surviving spouses and children.

For far too many people, Social Security's monthly benefit makes up all or most of their income in retirement. Nearly two-thirds of older Americans count on Social Security for half or more of their income in retirement. One in four older unmarried women (the widowed, divorced and never married) count on it for all of their income. Two out of five African American and Latino older Americans count on Social Security for all of their retirement income. These families need more for Social Security, not less.

Social Security is so important because most people do not have substantial pensions from their employers, and their savings are very modest. Fewer than half of all families have any kind of retirement savings account, and among those lucky enough to have one, half have less than $24,000 in it. As employers continue to cut back on real pensions, retirement security is likely to decline for working families.

This committee, the President and his commission need to tell working families why they should and how they can do with less from Social Security.

This committee, the President and his commission must level with the American people. Whose benefits are you going to cut and by how much are you going to cut them to pay for your privatization agenda?

LAKE COUNTY CENTER FOR INDEPENDENT LIVING
Mundelein, Illinois 60060

Congressman E. Clay Shaw Jr.
Chairman, Subcommittee on Social Security
Committee on Ways and Means
Re: Monday, June 18, 2001, 1:00 pm
Public Hearing on the Future of Social Security
University of Missouri at Columbia, Missouri

Congressman Shaw, ladies and gentlemen:

As an advocate in the Independent Living Movement and committed to its philosophy, I'm grateful for this opportunity to express concern about the future of this successful welfare program.

It continues to reduce poverty among our nation's elderly but is also extremely important to people with disabilities. As our society progresses and begins recognizing the civil rights and productivity of disabled citizens, Social Security Disability Insurance (SSDI) provides needed support.

Many people with disabilities are productive, tax paying citizens. But according to a Harris Poll, unemployment remains high. Does this mean we don't want to work? Not at all! Many have the desire to be employed, own a home, raise a family and pay taxes just like everyone else.

While the ratio of worker to beneficiaries declines, people with disabilities in the workforce should be seen as a vital resource.

Unfortunately, there are still many disincentives built into the Social Security System as well as other bureaucracies that act as obstacles to employment of people with disabilities. Add to that, stigma and attitude of potential employers and we are a suppressed resource.

- Disincentives include (but are not limited to):
- Employers attitudes toward hiring a person with a disability.
- Fear by employers of the expense of reasonable accommodations.
- SSDI monies provide financial support during trial work periods but benefits are often quickly terminated creating a disincentive to seeking employment.
- Fear of losing health insurance coverage.

Some of these concerns are being addressed, but by continuing to build employment incentives instead of disincentives into this program, increases the potential for a secure future for the Social Security program.

Taking a much broader perspective, some people with disabilities enter nursing homes and are "kept" there but shouldn't be in these facilities. Often they are "put" there by well meaning family members or doctors. It's been proven over and over again, that when provided with the appropriate supports, many persons with disabilities become independent and productive. Community-based services provide enormous savings to states.

By creating a more accessible society, we free up workers with disabilities so that we can be a resource. An accessible and a barrier-free society involve much more than curb cuts or ramps. Government programs can create barriers, too.

Seeing workers with disabilities as a resource when considering the future of Social Security may not be the entire answer, but with 54 million of us, it's a good start.

Sincerely,

MARY JANSEN PARRENT
Manager of Advocacy/I&R Services

Statement of Marilee C. Martin, St. Louis, Missouri

My personal story illustrates how crucial Social Security is for a widow with a minor child. When my husband died from cancer I was working, having re-entered the work force after nearly 12 years of not holding a job. But, naturally, his death considerably reduced our family income. Although my husband left a small life insurance policy, he had borrowed against it to start his own business; after he died those funds helped to pay off some debts he had incurred. I continued to work, so was not entitled to Social Security survivor's benefits.

However, I did collect survivor's benefits for my young son, then just 10 years old. The money could hardly replace a husband's income (one who had always paid the maximum in Social Security taxes), but Social Security survivor's payments certainly helped to cover my son's living expenses for the next several years. I could not have gotten by without those payments. To the small savings account we had begun a few years previously I added the remaining life insurance policy funds to cover any emergency that might occur. Since I had had breast cancer at the same time my husband was dying, it is an understatement to says the future looked problematic to me!

I finally moved back to St. Louis, where I had family, and I had to use the savings account when, except for small free-lance writing jobs, I was out of work for a year. During that lean time I collected Social Security survivor's benefits for myself as well as my son.

NOTE: Until the Reagan years Social Security paid survivor's payments until a minor child reached 21, the usual age for graduating from college. These benefits helped to cover a child's living expenses during the most expensive years of their lives for parents, when they're still trying to get an education.

The Reagan legacy was to lower the age for these benefits from 21 to 18 (now 16), based on the false assumption that if children were college-bound they didn't need Social Security survivor's benefits because they were eligible for benefits under other federal program—basic educational opportunity grants, guaranteed student loans, and college work study. What this premise overlooks is that children with both parents alive are also eligible for these benefits and none of these programs provide for living expenses. For my son, and millions like him, Social Security survivor's checks covered living expenses.

In reality, our family's income dropped by several thousand dollars a year just because my son became 18 years old and was cut out of the program. No amount of

educational grants and college work study program can cover that kind of diminishment in family income.

In another story of incredible need, Social Security disability payments benefited my older step-son, who developed an inoperable brain tumor in his early thirties, received extensive radiation and died 10 years later. Unfortunately, his wife broke under the strain, they were divorced and she moved to a smaller house with their two sons. He moved into a small studio apartment, living there until he died.

CONCLUSION

Only those who do not understand the valuable benefits Social Security provides for *other than old age*, could possibly think that younger working people are entitled to invest some of their Social Secutity contributions in their own private accounts.

Social Security does not rob young people at the expense of the old. It is an insurance program that provides innumerable benefits to all ages. No one knows what will happen to them from their early working years until they retire, but Social Security will provide for them should they have the need.

Statement of Robert McFall, St. Louis, Missouri

I would like to make a statement about the social security system as it exists today, and as I hope it will exist in the future. Social security is a tremendous success story. The program does exactly what it was designed to do: it provides a core retirement to the nation's workers. It has reduced the poverty rate among the elderly from more than 50% to 10%. In addition it has allowed the elderly to maintain their independence and in that way lessen the burden on the next generation. My father, for instance, was able to live in his own home until he was past 93 years old. It was only when his health had deteriorated that it was necessary to come to my house. Even then, he could contribute to household expenses. This allowed him a feeling of belonging and contributing which was important for his ego. Contrast this with my childhood when many families had a grandparent living with them. Three generational households were not at all unusual.

Social security is social insurance. It is based on the premise that all are contributing members and all are collecting members. We all contribute, some are better or luckier than others and will contribute more; we all collect, some are healthier or luckier than others and will collect more. We are all in this together. Our life account has no time left in it when we depart, and our social security account has no money left in it when the death benefits are paid.

As to the supposed shortfall, under the social security trustees pessimistic assumption about economic growth (they assume an average growth rate of 1.7% per year—less than half of the average over the last 100 years) the fund will have enough money to pay full benefits for more than 60 years. Also, if wages are higher, the so-called crisis disappears; if the gap between top and bottom narrows, we lose the crisis.

One thing I always hear mentioned is that when the baby boomers retire there will not be enough workers in the system to pay their benefits. That may be true now, but when they do retire we will simply have to import the workers to provide the health services, staff the travel agencies, man the restaurants, bars, resorts, etc. These workers will pay FICA taxes. If not, the baby boomers will make so much noise it will make this brouhaha sound like a tea party. When the boomers get unhappy the politicians will spring into action. Few politicians have been able to refuse the baby boomers, and retired boomers will have time to join AARP and write letters, and VOTE.

REAL REFORM

If you are still concerned about the financing gap I would suggest that lifting the cap on the employers share of the FICA would close nearly half the gap. Lifting the cap on both employee and employer would make the gap disappear. Applying the FICA to stock options would also be in the public interest. The interest paid on the bonds in the social security could be set at a higher rate. Since 1989, the share of national income going to corporate profits has increased by 3.2%. If not for this shift the median wage would be $1100 higher. In view of this shift, it would make sense to supplement the FICA with a tax on non-labor income. Any effort to decrease the distance between the highest income and the lowest has to reduce the so-called gap in the social security balance.

PRIVATIZATION

Many people would like to see social security partially privatized. They claim that the return on their investment is not what it should be. They do not consider that the life insurance and disability benefits would have to have a premium charged to their account. Make this charge to their account and the lower amount they are investing in their retirement would make the return much more attractive. I have read that a life insurance policy that covers children and spouse to age 18 would be the equivalent of a 300 thousand dollar policy; and a disability which would pay you for the rest of your life would be about a 200 thousand dollar policy.

If the rate of growth of the last 75 years was forecast for the next 75 years there would be no shortfall. Conversely, if the rate of return on stocks was projected as the same as the rate of growth of the economy, there would be no advantage to privatization. Instead we are projecting one rate of growth for the economy and another rate of growth for stocks so that privatization will look better. But the stock market is part of the economy. It can grow faster than the economy only if a larger segment of the economy is turned over to profits. Hence, the gasoline, electricity, and prescription drug price gouging. If the stock market grows at 7% and the economy grows at 1.1% which are the two figures most often used to set up the privatization argument the P/E ratio would be 1800 to 1. If profits go up by 7% in an economy going up by 1.1% by 2015 wages would be down by 45%, by 2035 wages would be in the negative numbers.

This is nothing but an attempt to make more pro-corporation people rather than pro-workers. The only people for this are ones that will benefit from the continuing spiral from stock prices. It is an attempt to create a demand in a market that is already too high.

There are many problems involved in privatization: transition costs, keeping track of many small accounts, finding brokers willing and able to handle millions of small accounts, regulating the brokers, etc. An article I read in the Post-Dispatch suggested that all of the problems will be handled by a little tweak of this regulation or that rule. Reminds me of the Morey Amsterdam story about the man and his tailor. The one that ends with one observer saying, "Look at that poor man, isn't it terrible that he has to stand and walk that way." His friend replies, "Yes, but doesn't the suit fit good."

It ain't broke, don't fix it.

OTHER POINTS

Our real income is 71% higher than it was 30 years ago. Yet we are told that we cannot afford to honor our contract with the elderly. The weakest of our poor, our children just lost a 63 year old entitlement, AFDC. Meanwhile the Balanced Budget Amendment of 1997 made sure that those who had doubled their money in the stock market would get a generous tax break when they cash in their winnings.

According to Social Security trustees, it would take less than 1% of national income to close the shortfall. Workers earning more than 35% more than today (rising to 75%) would have to pay 1% more in taxes. But rising health care costs would eat into wages, lowering them by 14% in 35 years. It is health care and not social security that needs reformation.

Statement of John Metzger, Troy, Missouri

Good afternoon, Mr. Chairman and Member(s) of the Committee. I appear before you this morning as a concerned senior citizen of the State of Missouri and of the great United States of America. Although I am a member of several organizations and federations, I am speaking of my concerns, which I believe are the concerns of the vast majority of seniors nationwide.

Privatization for all recipients of Social Security is just not good and for many would end in disastrous results.

We must ask ourselves three questions and insist on answers to these questions. First, would the returns on personal accounts actually exceed what a reformed Social Security could deliver? I don't think so! Second, would benefits under a privatized system be safe? I don't think so, too risky! Third, would these privatized alternatives reliably fulfill the current program's crucial social functions? I don't think so!

The answers to all three of these questions is a big no.

Privatization is not the answer because Social Security, with changes that would leave its basic structure intact, can provide workers with higher returns than could

any privatized alternative and can provide these returns with much less risk while continuing to advance important social objectives that privatized alternatives would jeopardize.

Social Security was created in 1935 to provide all American families with a dependable income base upon which they could build additional protection against income loss for themselves and their families after retirement, disability or the death of a breadwinner. To this end, Social Security replaces a larger share of lost income for low earners than for high earners, grants more generous survivors' benefits to larger than to smaller families, provides extra resources for retired couples in which one spouse has had no or limited earnings, and gives special consideration to divorced people whose marriages lasted at least 10 years.

In part because of these provisions, Social Security lifts twice as many people out of poverty than all other income-tested assistance programs, cash and in-kind combined.

Under a privatized system, in which each participant's benefits would depend on the accumulations in his or her individual account, there is no room for such social assistance. That burden would have to be borne by a separate program, possibly one requiring a demeaning means test.

Social Security provides a secure and predictable financial guarantee by tying benefits to the average wages workers have earned over their lifetimes. In privatized systems, however, benefits ride the financial market roller coaster and we can see good examples of this in the past months. A drop in asset value just before a worker reaches retirement or becomes disabled can decimate benefits.

For the average worker, a non-sophisticated investor, average returns would be less than received under regular Social Security benefits. Of course, some investors would beat the averages—most with market sophistication or who can afford to buy expert financial advice. Others would do poorly because they invested too conservatively or accepted some of the endless supply of bad financial advice that is readily available. I suppose that is why there is current legislation to reduce the *costs of* marketing stock/bonds. Convenient.

So what needs to be done to fix Social Security? First, coverage should be made truly universal by covering all newly hired state and local government workers, one-quarter of whom are now outside the system. Extending coverage would provide additional protections to these workers and help Social Security's finances. Furthermore, benefits should be treated like other retirement income by subjecting them to the same income tax rules that apply to private pensions, that is by taxing benefits that exceed what the worker has contributed. These tax revenues could be credited to the trust funds to help finance future benefits.

Second, benefits should be slightly reduced by increasing the number of years of earnings averaged to compute a worker's benefit and by accelerating scheduled increases in the normal retirement age. In combination with announced corrections in the Consumer Price Index, which would lower annual inflation adjustments to benefits, the changes listed so far would close two-thirds of the projected long-run deficit.

Third, the requirement that Social Security reserves be invested in relatively low yielding Treasury securities should be scrapped and the trustees empowered to invest in a diversified portfolio that includes private as well as government assets. The responsibility for managing these funds should be transferred to a new, quasi-private agency modeled on the Federal Reserve. The chair and members appointed for lengthy staggered terms, should be required to invest reserves only in broad index funds and to make sure that shares were voted solely to reflect the economic interest of participants.

This structure would save money and make possible higher average returns for beneficiaries than private accounts could offer. It would also ensure that Social Security reserves could not be used as an instrument of political control over private business decisions.

And moving the reserves to a quasi-private entity would help guard against the possibility that growing fund surpluses would be used to justify tax cuts or spending increases.

The above changes would fully close the projected long-term deficit in Social Security and for most people, generate higher and more reliable pensions than would private accounts. It is important to realize that privatization is not a free lunch. Taxes have to be raised, benefits for current retirees and older workers cut, or both. The unpleasant reality is that the current payroll taxes, 80 percent of which are needed to pay current benefits, do not generate enough money to fund meaningful deposits into private accounts unless benefits are slashed deeply.

If the advocates of privatizing Social Security were making valid claims, it might be worth paying those higher taxes. But it is hard to see why American workers

should be asked to fork over more for a new system that would deliver lower average benefits for each tax dollar they pay, that would subject workers to financial risks they are ill-equipped to bear, and that would place in jeopardy the social assistance on which millions of Americans depend.

We need to tune up Social Security, not trade it in for a new, but flawed model. Thank you.

Raise SS Caps

	50% Single	MFJ couple
From	25K	32K
To	35K	45K
	80% Single	**MFJ Couple**
From	34K	32K
To	46K	56K

Statement of Missouri Rural Crisis Center, Columbia, Missouri

No Privatization

[Typed from hand-written statement.]

Statement of Missouri Women's Network, St. Louis, Missouri

The Missouri Women's Network is strongly opposed to privatization of Social Security. Privatization would do most harm to hundreds of thousands of elderly women who depend wholly or partly on Social Security benefits. Women live longer and get paid 75 cents to a men's dollar during their working lives. They, therefore, receive less from company pensions than men and rely on Social Security to fill the gap. Women who have not held a job outside the home often depend solely on Social Security for their pensions. Without Social Security the poverty rate for women over 65 would be at least 53 percent!

Privatization would benefit only a few with the majority losing money in the very risky stock and bond markets. Taking risk into account, Social Security has a much higher return than any mix of financial assets in private accounts. Many people are not educated about the markets and would be taken advantage of by unscrupulous brokers/money managers.

Social Security provides security for women and families because it is guaranteed, you can't outlive it, and it keeps pace with inflation.

The current perceived "problems" with Social Security need to be repaired—the program not overhauled or abolished!

Statement of Stephen Mudrick, Columbia, Maryland

To: U.S. House Ways and Means Committee, Social Security Subcommittee

I believe that Social Security should serve as the major component of the "safety net" for all American citizens. Many people depend on Social Security benefits for their retirement income, but I understand that many beneficiaries are not retired. Social Security serves a broad spectrum of our population.

I feel that any attempt to take money out of Social Security by "privatizing" it in any way, or by allowing people to put part of their Social Security money into private investments, would hurt the system. It would reduce the Social Security funds that provide the safety net benefits. I am opposed to attempts to "privatize" Social Security.

Encouraging people to put savings into private investments that can supplement their retirement is fine, but it must not be at the expense of reducing the safety net, the basic Social Security benefits.

Statement of Merrill Leutung, Missouri Federation of Chapters, National Association of Retired Federal Employees, Columbia, Missouri

Mr. Chairman, I am Merrill Leutung of Columbia and I am an officer in the Missouri Federation of Chapters of the National Association of Retired Federal Employees (NARFE). I thank you for scheduling this hearing on the Social Security. I am grateful to Congressman Hulshof for inviting me to make a few comments on an issue of such great importance to the 4,600 federal annuitants who live in the 9th Congressional District and the 50,272 federal retirees and survivors who call Missouri home.

As a federal annuitant, I would be remiss if I did not raise the issue of the Government Pension Offset (GPO) in the context of the dialogue you are holding on Social Security reform today.

In 1935, when the Social Security Act was originally enacted, it provided the same benefits to workers, with and without spouses, and no survivors' benefits. The amendments of the Social Security Act, enacted in 1939, added spousal and survivor benefits to provide extra protection to workers with families.

The GPO Social Security Act amendment, originally enacted in 1977, went into effect in 1983, and since then, has affected over almost 285,000 federal, state, and local retirees. It reduces or eliminates the Social Security spousal benefit (wife, husband, widow, or widower) to which an affected retiree may be eligible. Two-thirds of the amount of the monthly government annuity that the retiree has earned, is used to offset whatever Social Security spousal or survivor benefit might be payable.

According to the Congressional Budget Office, "about 145,000 retirees from federal, state, and local governments had their Social Security auxiliary benefits reduced or eliminated as a result of the GPO in December 1991."[1] Since then, that figure has almost doubled.

The Social Security Administration states that the number of social security beneficiaries affected by GPO as of December 1997 was 270,975.[2] That number increased by December 1999 to 284,383.[3]

Of the 284,383 affected beneficiaries, 229,941 or 80 percent are fully offset, which translates into no benefit. It is crucial for you to note that 104,137 or 38 percent of the total number of affected beneficiaries are widows or widowers and 71,175 or 68 percent of them are fully offset.

Mr. Chairman, I understand that there are members of this committee who have concerns regarding "means testing." I am led to believe that these concerns specifically relate to H.R. 664 and the provision of a $1,200 per month threshold before GPO would be applied.

When Congress enacted GPO in 1983, it set a "means test" precedent by introducing a means test provision into the Social Security program by denying the full application of spousal benefits to persons receiving government pensions. This application of denial is not applied to those persons who are the recipients of annuities or other retirement benefits from the private sector.

We, as federal annuitants, share you and your colleagues' concerns over the impropriety of "means testing" in Social Security and believe that Congressman Jefferson's bill H.R. 664 is the most pragmatic approach to the modification of the GPO, in lieu of repealing it.

Public Law 106–182, introduced as H.R. 5 by Congressman Sam Johnson, was passed in both houses of Congress and signed into law by the President on April 7, 2000. This law "eliminates the earnings test for individuals who have attained retirement age." The estimated cost of the earnings repeal is projected to be $8 billion in the first year and $22.7 billion over the next ten years. The projected estimate for H.R. 664 is about $300 million in the first year and $4.4 billion over the next ten years.

These preliminary projections for H.R. 664 are based on a threshold of $1,200, and indexed by the Social Security COLA over ten years, retroactive to December 31, 1999.[4] Social Security Administration actuaries have determined that, just as with

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[1] CBO Testimony—Statement of Nancy M. Gordon, Asst. Dir. for Human Resources and Community Development, Congressional Budget Office before the Subcommittee on Social Security, Committee on Ways and Means, US House of Representatives—April 8,1992.

[2] See attachment A—Beneficiaries affected by the GOP as of December 1997.

[3] See attachment B TABLE 6103—Number of beneficiaries affected by the GOP by gender and type of benefit, fully and partially offset, December 1999.

[4] See attachment C—est. costs of Cong. Jefferson's proposal (preliminary and unofficial SSA figures).

the earnings test repeal, enactment of H.R. 664 would "increase the OASDI long-range actuarial deficit by an amount that is estimated to be ***negligible*** (i.e., less than 0.005 percent of taxable payroll)."[5]

Members of this committee were able to expeditiously change the Social Security Act to benefit older workers through Public Law 106–182. We are now asking you to expend that same effort to effect change through H.R. 664 for government retirees.

In fact, since repeal of the earnings limit, government workers 65 and older can receive full social security benefits based on their own work or as spouses or survivors. However, as soon as they retire, their social security is cut or ceases altogether. Therefore, a benefit counted on for retirement is paid while one is working, only to disappear when needed most—at retirement.

We urge you to support H.R. 664, a proposal to modify the Social Security Government Pension Offset, supported by the millions of federal, state and local government employees and retirees across the United States. We also urge you to publicly ask President Bush's Social Security Reform Commission to include a recommendation in favor of GPO reform it its final report.

Thank you for the opportunity to express our concerns about this important issue.

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June 19, 2001

I also want to call your attention to another inherently unfair provision of the Social Security Act which denies Social Security benefits to almost 600,000 retired public servants. That is the so-called Windfall Elimination Provision (WEP), which was enacted as part of the 1983 Social Security Amendments. In short, this provisions denies as much as $262 per month of earned social security benefits to former government workers who did not have at least **30 years of substantial** earnings taxed by Social Security. In short, the WEP establishes different eligibility and entitlement rules for different folk, dependent solely upon their career time spent as public servants. Correction of this inequity is almost 20 years overdue, but certainly "better late than never."

To ask for an end to the WEP is only asking for an end of the current inequity!!!

It is also difficult for us to believe that giving workers the option of putting some money in the stock market would be helpful. It would keep some money out of Social Security System. Also they may not put it in stocks. We oppose it.

MISSOURI FEDERATION OF CHAPTERS
COLUMBIA, MISSOURI 65205–0623
June 19, 2001

A Social Security tax was raised to 85% on people that had incomes above $25,000 single or $32000 married on the basis to help correct the Deficit. I appreciate the tax cuts that were made but this one was not addressed. Since we do not have a deficit this should be lowered back to the 50% level. Another thing that could be considered is to double this $25,000 and $32000. This level is way too low.

Thank you for hearing me.

MERRILL LEUTUNG

Statement of OWL

Women are the face of Social Security, comprising 60 percent of beneficiaries over 65 and 72 percent of recipients over 85. Women depend on Social Security's guaranteed, lifetime benefits: 27 percent of women over 65 rely on Social Security for 90 percent of their retirement income. A comprehensive discussion of Social Security and its future cannot be had without women's realities, perspectives and needs being made perfectly clear.

OWL is the only national grassroots membership organization to focus on issues unique to women as they age, striving to improve the status and quality of life for midlife and older women. OWL's statement today will reflect the realities of midlife and older women's lives, but our members also share a concern for the young women of today—women who remain the group most vulnerable to poverty in retirement tomorrow.

[5] See attachment D—Social Security Administration actuarial memorandum (February 23, 2000).

Women's Lives: Real Facts

Women earn less

Women earn only 72 cents for every dollar a man earns, so they are able to save less during their working years. In their 50's, which represent for most the highest earning years and a chance to play catch up with retirement savings, women earn only two-thirds of what men earn. Despite workforce participation gains made by women in the past decades, younger women are not exempt from this wage gap. A majority of women today work in retail, clerical or service jobs, just like their mothers did. Further, three out of four working women earn less than $30,000 annually. You can't save and invest money you don't earn. Social Security's progressive distribution helps compensate for this situation, but private accounts leave low-wage workers, typically women and minorities, to fend for themselves.

Women take time out of the paid labor force for unpaid caregiving

Women take more time out of the workforce—in their younger years for child rearing and in midlife for caregiving for spouses and parents. For the average woman, caregiving will mean about 14 years out of the paid workforce. These are years in which she is not vesting in a pension, increasing her earning power, or garnering Social Security credits; these lost wages translate to less income in retirement.

Women aren't covered by pensions

Less than one-fifth of older women receive income from a private pension. Even when women are covered by pensions, they often don't reach the five-year mark for vesting in the pension. Primarily because of caregiving, women change jobs an average of every three and a half years. New tax legislation would reduce pension vesting requirements to three years, and this is great news for women still in the workforce.

However, traditional pension coverage for women is shrinking rather than growing. Over the past decade, there has been a dramatic shift toward defined contribution benefit plans and away from defined benefit pension coverage. Unlike defined benefit plans where the worker has a set benefit for the rest of their lives, defined contribution plans (e.g., 401k, 403b and 457 plans) do not specify the amount to be paid upon retirement, but instead offer upfront contributions to an account that accumulates in value over time. This shift in types of pensions means that even fewer young women will be able to count on a steady pension benefit, and instead will have to hope they don't outlive their 401k funds—plans which are funded by a percentage of their already lower earnings.

Women live longer

When our granddaughters become older women, we certainly hope that everyone is living longer, healthier lives. But if today's trends continue, women will continue to outlive men by at least six years. Living longer may be a blessing, but it is sometimes a financial nightmare. Women face the very real threat of outliving their money. They have less income to start with, and they have to make it go farther for longer. Younger women can't trust the stock market to make up for lower earnings, years out of the workforce, and a longer time in retirement. The guaranteed, inflation-adjusted, lifetime benefits of Social Security are more than a safety net: they are a solid financial base on which women can depend.

Result: Women are poorer in retirement

After battling lower wages, time out the workforce, and reduced access to retirement benefit plans, women are faced with less money to live longer lives. Today, the average older woman in America struggles to make ends meet on a limited annual income of $15,615 (compared to an average of $29,171 for men). Women are three times more likely than men to have lost a spouse and comprise 80 percent of seniors living alone, so they are quite literally on their own.

Because her retirement income is smaller, she spends a higher proportion of her income on housing costs—leaving less for other vital necessities such as utilities, rising medical costs, food and transportation. The average older woman also spends 20 percent of her limited income on out-of-pocket health care costs. The average woman on Medicare spends 20 percent more on prescription drugs than men—largely because of her greater longevity but also due to her greater tendency towards chronic illness.

Depending on the mythical three-legged stool for retirement security—Social Security, pensions and personal savings—has never worked as well for women. Her work patterns and lower wages make the latter two difficult to depend upon. That's what makes Social Security such an important financial foundation for women.

Twenty seven percent of women over 65 rely on Social Security for 90 percent of their retirement income, and the numbers are higher for minority women. Without Social Security, OWL estimates that half of all older women would fall into poverty.

OWL is working to shore up all legs of retirement planning's three-legged stool by advocating for pay equity, urging America to value its caregivers, and pushing for women-friendly pension rules. In the meantime, we refuse to stand by and watch Social Security—the strongest leg—be dismantled.

Women and Social Security Privatization

Insurance against unexpected events

How would a privatized system provide a safety net for divorced women, widows, survivors with young children, women with disabilities, and others? Social Security is just that: a social insurance policy to provide security when life takes tragic or unexpected turns. Social Security is not just for retirees—it's for the 28-year-old widow who must now provide for her children on her own; for the 35-year-old single woman who becomes disabled after an accident or illness; for the children of a working 40-year-old mother who dies, and for so many more. In fact, one-third of all Social Security beneficiaries are children, widows and people with disabilities. This system of social insurance allows families to count on a minimum floor of financial support should they lose their primary or sole breadwinner. A 27-year-old stay at home mother would probably not have enough saved in her or her husband's private accounts to help her keep her family from financial ruin, but Social Security's rock-solid guarantee will protect her.

Inflation-adjusted guarantee

Private accounts cannot offer what Social Security does: guaranteed benefits that never decrease, benefits that are adjusted upwards for inflation, and benefits that you can never outlive. For all the reasons listed above—lower wages, lower pension coverage, more time out of workforce for caregiving, longer life spans—women must have Social Security as a solid financial base they can depend upon.

If Social Security was converted to private accounts, retirees would turn to annuities to convert their cash account into equal monthly payments. But the private annuity market does not offer inflation-adjusted policies that are reasonable in cost and do not further decrease women's monthly payments. The fact that women have smaller accounts to start with and are likely to live many years longer than men means that annuity policies offer women a reduced benefit from the start. Finding a rare inflation-adjusted policy, if she could even afford it, would mean a further dramatic reduction in a woman's monthly benefit.

Stock market volatility

A woman's retirement security should not depend on the year she is born, the year she starts working, or the year she retires. Averages in stock market growth are just that—averages. They don't tell us how an individual woman will fare, nor do they protect her against the inevitable ups and downs of a risky market. Further, private accounts will most likely be subject to processing fees for Wall Street brokers, which could eat a larger proportion of women's already smaller accounts.

Benefit cuts & higher retirement age

Privatization would divert a massive amount of money—approximately $1 trillion over only the next ten years—out of the Social Security program. To pay for this expense, there would have to be sharp benefit cuts in the guaranteed portion of the program, or steep increases in payroll (FICA) taxes to cover the loss and pay transition costs. The private accounts are supposed to make up for these cuts, but they fail to do so and leave beneficiaries, especially future beneficiaries, short of where they would be under current law. Women will also pay more for privatization down the road. Not only will their accounts be smaller, but because of their longevity it will also cost women more to annuitize their private accounts—which they will have to do in order to withdraw the funds—when they do retire.

Under most privatization plans, the retirement age will have to be raised—again. Already slated to reach 67 years old for those Americans born after 1960, an increased retirement age is unrealistic and unfair for many women. The jobs women and minorities traditionally hold—service and retail workers and manual laborers—are especially strenuous and are often not feasible for 70-year-olds.

Comparing apples and oranges

Privatization proponents are pitching such reforms with the lure of a "better" rate of return on the dollar, an argument that can be especially appealing to younger people. This is a misleading and dangerous argument, not just for the reasons outlined above but also because it simply compares apples and oranges. You can't com-

pare the social insurance nature of Social Security's guaranteed, inflation-protected, lifetime benefits with an individual account that carries no such protections and many more risks. Given its reliability and efficiency, Social Security remains a wise investment.

Young Americans understand Social Security's social insurance nature: a recent poll showed that 85 percent of young adults believed that "senior citizens generally need and deserve the government benefits they receive, so it is not unfair to young people." In that same poll, young people said that "making sure that people receive a decent, guaranteed monthly retirement benefit" is a higher priority than "making sure that people receive a better rate of return" by a margin of 55 percent to 39 percent.

Privatization Hurts Solvency: Real Ways to Shore Up Social Security

The first question that is thrown at defenders of Social Security is usually, "What would you do to "fix" it?" This implies that privatization is somehow a solution to any potential solvency issue, when in fact it actually hastens insolvency—using current predictions—by 15 years!

According to the latest report from the Social Security Trustees, the trust fund's surplus will end in 2038 without any changes, leaving a gap between incoming payroll taxes and outgoing benefit payments. We must remember that estimates are just that, and can vary widely from year to year. Two years ago, Social Security was expected to run out of money in 2032. If the economy grows faster than the trustees' conservative estimates, then Social Security faces no solvency threat in the next 75 years. While OWL wants to address long-term solvency issues to ensure the longevity and health of these critical programs, we must reject alarmist proposals that play off unfounded fears and threaten Social Security's guarantees.

However, there are sound improvements that can make the system more secure and solvent far into the future. This is not a comprehensive list, but rather some suggested starting points for discussion.

Social Security's long-term solvency can be strengthened by:

1. Using general revenues (in addition to the current direct payroll taxes) to guarantee that Social Security will be able to meet all of its obligations in 2038 and beyond. The surpluses projected for the next few years would go a long way to solving any potential solvency problems. However, the President's tax cut plan has locked up most of these funds for the next ten years.
2. Adjusting the maximum wage base by making all earnings subject to the payroll tax and credit them for benefit calculations. Some experts believe this action would make up for 75 percent of the solvency gap.
3. Invest 40 percent of the Trust Fund in stocks. This maintains the shared risk, shared benefit nature of Social Security, while potentially growing the trust fund surplus at a faster rate, which would help close the gap. Private pension plans often use this tactic to share the risk while maximizing the return.
4. Increase the payroll tax for employees and employers in 2020. While not a favorite option for most taxpayers, this proposal still has a place in the solvency discussion. If it helps preserve the universal nature of Social Security, where no one individual is left to sink or swim on their own, then it may be worth the cost.

Statement of Joan B. Bernstein, Vice President, OWL

WOMEN & SOCIAL SECURITY—WHY IT MUST BE PRESERVED & IMPROVED

Social Security represents about 90% of retirement income for about 27% of all older women because of women's generally lower wages, fewer years in the work force, and scant pension coverage.

- Without their current social security benefit, more than half of women age 65 and older would live in poverty. The percentage increases markedly the older the women are.
- Women over age 65 are twice as likely as men to live in poverty with average annual incomes about $15,600.
- One older woman in four is poor or near poor.
- 5.4 million children live in households maintained by grandparents or other non-parent relatives; 1.4 million children are being raised by grandparents alone.

Women, particularly single women, both divorced and never married, have less discretionary income for savings over a lifetime of work, both paid and unpaid.

- Women earn about 73 cents for each dollar earned by men;
- Women earn about $250,000 less in lifetime earnings than men;

• Women, who provide about 73% of unpaid care to family and friends age 50 and older, average 14 years outside of the paid workforce.

82% of women age 65 and over do NOT receive any private pension benefits, because

• Most women work in low wage, service sector or part-time jobs, many of which provide no pension benefits;

• Women average a job change every 3.5 years, yet most pension plans vest only after 5 years of employment;

• The 18% of women who qualify for pensions receive pension amounts about ⅓ less than men. In 1995, women received on average only $4,679 annually compared with $6,442 for men.

Women & children disproportionately depend on Social Security's disability and survivor benefits when a working spouse or parent is disabled or dies.

The Social Security system must be maintained or improved to ensure that all persons are guaranteed a decent old age after a lifetime of work and care-giving.

Statement of Nat Scavone, Columbia, Missouri

Background:

I retired on January 1, 1996 and receive Social Security and a small state pension. (Completely satisfied with the Social Security Administration.)

In January 2000, I was required to start withdrawing my deferred compensation **required by law.**

I had expected to pay income tax on the portion of my withdrawal from my deferred compensation as I withdrew it. This happened—I paid my tax—the government got their share before I received mine. This is **not the problem** that I want to address.

The problem, as I see it comes from the tax in the tax changes instituted by the Clinton Administration wherein anyone making $39,000 GROSS is subject to tax on 85% of their S.S. earnings.

I did not make any additional money but because I was **required by law** to withdraw a portion of my deferred compensation, which raised my adjusted gross income; therefore, I was subject to this additional tax!

In addition to that, the balance of the deferred compensation was invested and I did receive a small dividend which was also taxed.

Although the amount of tax is not large it opens the way for further taxes on our retirement income.

Thank you for your consideration in this matter.

Statement of Laurence S. Seidman, Professor of Economics, University of Delaware

FUNDING SOCIAL SECURITY

Think personally. Suppose you realize today that two decades from now you'll face a financial crunch. What should you do now? The answer is easy: save for the next two decades, thereby building up a large fund that can be tapped when the financial crunch hits. Of course, saving involves sacrifice. But the sacrifice is not as bad as facing the crunch two decades from now without the help of a large fund. Now think about the Social Security system facing the same problem: a financial crunch that begins two decades from now due to the retirement of the numerous baby boomers. What should it do? Again, the answer is easy: build up a large fund—"fund" Social Security. Once again, building the fund involves a sacrifice: we must pay more taxes for the next two decades. But this sacrifice is not as bad as facing the crunch without the help of a large fund.

The good news is that we've already begun to fund Social Security. In the 1980s, a bipartisan commission headed by Alan Greenspan persuaded Congress to enact a gradual build up of the Social Security fund. The build up is going nicely, but it needs to be accelerated. A modest increase in the amount of payroll subject to tax, and a modest infusion of income tax revenue into the Trust Fund, will handle the crunch (according to the Social Security actuaries). If Democrats and Republicans would *both* support another round of funding the way they supported the initial

round in the 1980s, neither party would be able to blame the other for the necessary taxes, and Social Security would be ready for the baby boomers when they retire.

Again, think personally. If you build a fund, should you hold it all in cash? Certainly not. At a minimum, you want to earn interest. But if you are willing to accept some risk, you can probably achieve a higher return by investing a portion of the fund in a conservative diversified stock index fund. The same logic applies to Social Security. So Congress should permit the Social Security Trust Fund to do exactly this under prudent guidelines. A Social Security Reserve Board should be established to manage the Trust Fund's portfolio, holding a large portion in safe government bonds, but a small portion in conservative diversified stock index funds (this portion would be managed, under contract, by private investment firms).

Notice that I've said nothing about creating new individual accounts under Social Security. That's because they're not necessary to solve Social Security's problem. But what's wrong with Social Security individual accounts? A few things. Where does the money comes from? If each person is allowed to divert 2% of his current 12.4% payroll tax to his new individual account, then obviously the Social Security system is left with only 10.4% and will build a smaller fund instead of the larger one we need. A smaller fund means a smaller regular Social Security benefit. That's OK if your individual account earns a high return. But it's not OK if your individual account loses money. If it does lose money, you can handle it if your income is high, but not if your income is modest. Of course, if none of the current 12.4% payroll tax is diverted, thereby protecting the regular Social Security benefit, the money for the new individual accounts must come from an increase in taxes, just like funded Social Security. Individual accounts are OK as a supplement to, not a substitute for, funding Social Security.

Statement of Richard T. Stith, Jr., St. Louis, Missouri

Nowhere have I read a discussion on our Social Security system setting out what it is and how it works, and yet a misunderstanding of its operation that could be a turning point in congressional consideration. Social security is a plan that provides *defined benefits* to the people it covers; that is, the benefits are in the form of a definite amount of income determined by formula This income is payable at retirement, or at disability, or to orphaned children, or to a widow with a young family, or to a widow or widower following the death of a spouse retiree.

The income benefit is earned after a period of work during which the individual pays a tax on a certain amount of his income. The formula for the future income benefits payable to the worker depends on the average earned income on which the social security tax was paid over a minimum, continuous period of time.

The key here is that no amount of money is accumulated in any separate account because of the tax that the participant has paid. In fact very large benefits could be paid to a deceased's spouse or a deceased's family even though the deceased had paid no significant amount of social security tax before death. And retirement payments sometimes can far exceed the amount contributed in tax by the retiree.

For retirement, actuaries calculate how many participants will retire, and how long they will live, and how large their income benefits will be. The tax money put into the system by *all participants* provides the benefits for those retiring. The actuaries also are aware of fixture retirees and deaths, and the Social security tax is set at a rate to provide for this future. Any tax collected in excess of current needs is invested in government bonds at current rates (now near 6%) and will provide benefits for those not yet retired nor yet in need of family death or disability benefits.

In a close sense a defined benefit retirement plan (which our Social Security plan is) is like life insurance: where those insured pay in money not knowing who will die first or last, but knowing there will be a payment in behalf of each at death. Under Social Security some may live and draw income for a long time and some only for a short while, but the contributions of all make this possible. Each participant is part of the whole, as he is with life insurance, and does not stand alone.

Any excess Social Security tax money now being collected could be invested in stocks, or securities other than government bonds, and possibly the long-term-return would exceed government bond earnings and thus provide a larger future reserve. Even a small increase in the percentage return on investments can mean much over a long period. But this would not increase any individual's benefit; rather it would aid in meeting the requirements of the income formulae provided under the Social Security rules. Computer models could be used to see if there is a real benefit in this investment modification, or prohibitive risks.

No tax money paid into Social Security by any individual accumulates in a separate account to provide him any benefit. His money goes into the pot, and what he gets depends on the formula under which he qualifies at death or retirement. If we paid each participant at death or retirement only what he had accumulated—no matter how little there would be no social security. Certainly the rank and file would have no social security under a defined contribution plan. IRA plans can meet individual investment needs without diverting part of the social security tax. We need more money in the Social Security system, not less, which is why stock investment is being considered, despite all its problems.

We are now lucky to have our social obligations to our community covered by a well thought out defined benefit plan.

Statement of Harry Weitkemper, Columbia, Missouri

SS Has Cola
Now We Need A LOLA "Length" of "Living" Adjustment
Just one More Adjustment
[Typed from hand-written statement.]

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