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S. HRG. 109–244

FISCAL YEAR 2006 FIELD HEARING

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

March 23, 2005—THE FUTURE OF SOCIAL SECURITY

Printed for the use of the Committee on the Budget

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THE FUTURE OF SOCIAL SECURITY

WEDNESDAY, MARCH 23, 2005

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Fargo, ND

The committee met, pursuant to notice, at 10:35 a.m., in the Prairie Rose Room, 1401 Administration Avenue, North Dakota State University, Fargo, North Dakota, Hon. Kent Conrad presiding.

Present: Senator Conrad.

Staff present: Sarah Kuehl and Catherine Peterson.

OPENING STATEMENT OF SENATOR CONRAD

Senator CONRAD. I want to welcome everyone to the North Dakota State University campus for an important Senate Budget Committee hearing about the future of Social Security, and I want to extend a special thanks to the witnesses for their testimony here today.

We have on the witness panel Janis Cheney from the North Dakota Chapter of the AARP.

We have Bob Bixby, who is here from The Concord Coalition, the national organization that advocates fiscal responsibility while ensuring that Social Security and Medicare are secure for all generations.

We have Mrs. Venus Blake, a retiree from Fargo, who's here to tell us a little bit about what Social Security has meant to her and Stuart Savelkoul from Dickinson, North Dakota, who recently graduated from Dickinson State University. I understand that you were president of the student body there; is that correct?

Mr. SAVELKOUL. Once upon a time.

Senator CONRAD. Once upon a time. Well, it is good to have you here as well to give your views on Social Security.

Each of the witnesses will be asked to testify for five to 7 minutes. Then I will ask the witnesses some questions to further draw out their views on Social Security and the challenges that we face.

Before we get to the witnesses' testimony, I would just like to make some brief opening remarks about where we are with respect to Social Security and the funding challenge that we face. I believe the President has rightfully indicated that there is a long-term funding challenge that we need to address and the sooner that we do it the better.

I think we all recognize the extraordinary importance of protecting and strengthening Social Security. This has been one of the most successful enterprises that the Federal Government has ever

embarked on to provide retirement security for Americans and it has played an absolutely critical role in the lives of many people.

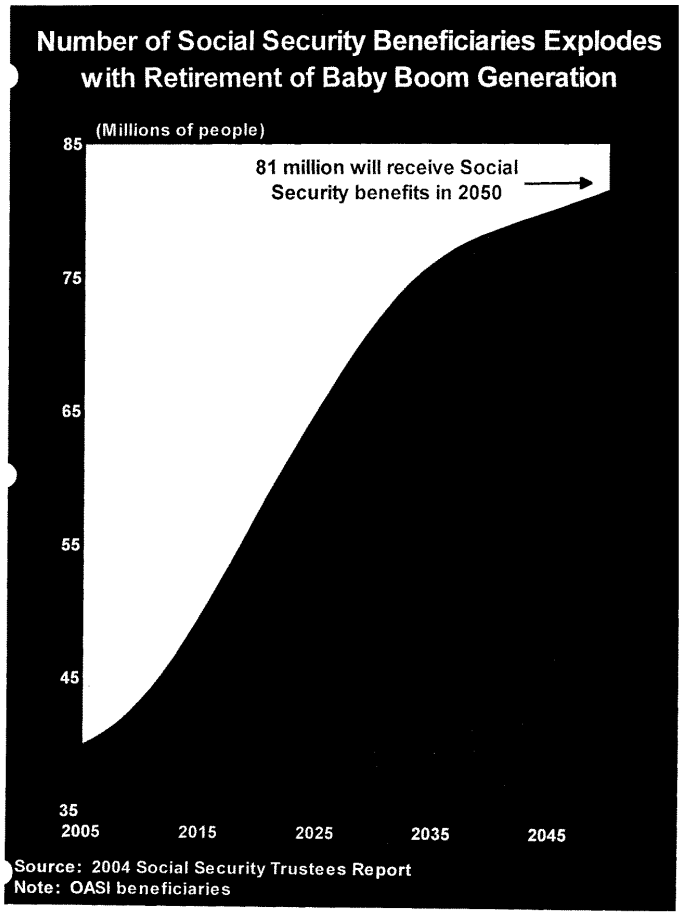
I think many of you know my life story. My parents were killed when I was young and I was raised by my grandparents and during all of my growing up I received a survivor's benefit. My family was of moderate means and that survivor's benefit was very important to me and to my brothers.

In part, it enabled us to go on to college and get advanced degrees and played a critical role in our ability to succeed, so I think I have a first-hand understanding of how important Social Security can be for North Dakotans and Americans.

The fundamental reality is that we face a funding challenge not only in Social Security but in Medicare. Of course, we have a larger funding challenge as well, don't we, because we are running these massive Federal budget deficits, and all of these things will put enormous pressure on the fiscal condition of the Federal Government.

We are running record budget deficits now and we see no end in sight. With the budget that has just passed Congress, according to the calculations of those who favored the budget, it will increase the debt by over $600 billion a year each and every year of the 5-years of that budget. That is an enormous accumulation of additional debt on top of an already surging Federal debt that we experience today.

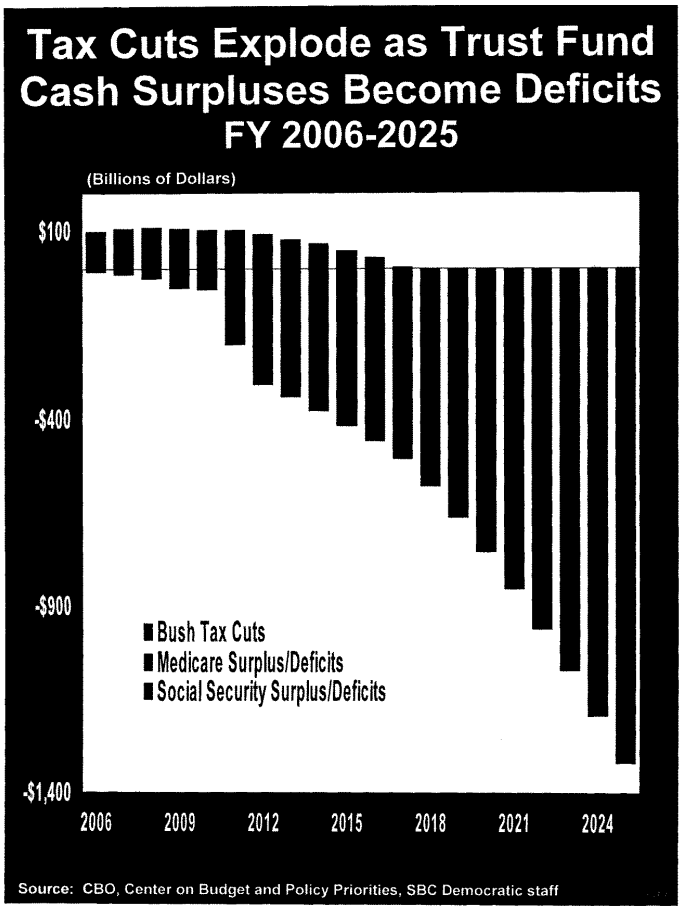
Now, with respect to Social Security, and this affects Medicare as well, here is the fundamental problem that we confront. We have got a demographic change that is occurring with the retirement of the baby-boom generation that's going to take us from around 40 million people eligible for Social Security and Medicare to 81 million by 2050, and it is a very dramatic rise in the people eligible for Social Security and Medicare.



While we clearly have a shortfall in Social Security, we have an even bigger shortfall in Medicare. In fact, the Medicare shortfall is eight times as large as the shortfall in Social Security. My own strong belief is we need to work on both of these things as well as the budget deficits. Why? Because this extraordinary level of borrowing is making us increasingly indebted, not only to those who buy government bonds in this country but to people who are buying government bonds all around the world.

In fact, foreign holdings of our debt have gone up almost 100 percent in the first 3 years of this administration. I don't believe that strengthens the country. I believe that weakens us and makes us more vulnerable.

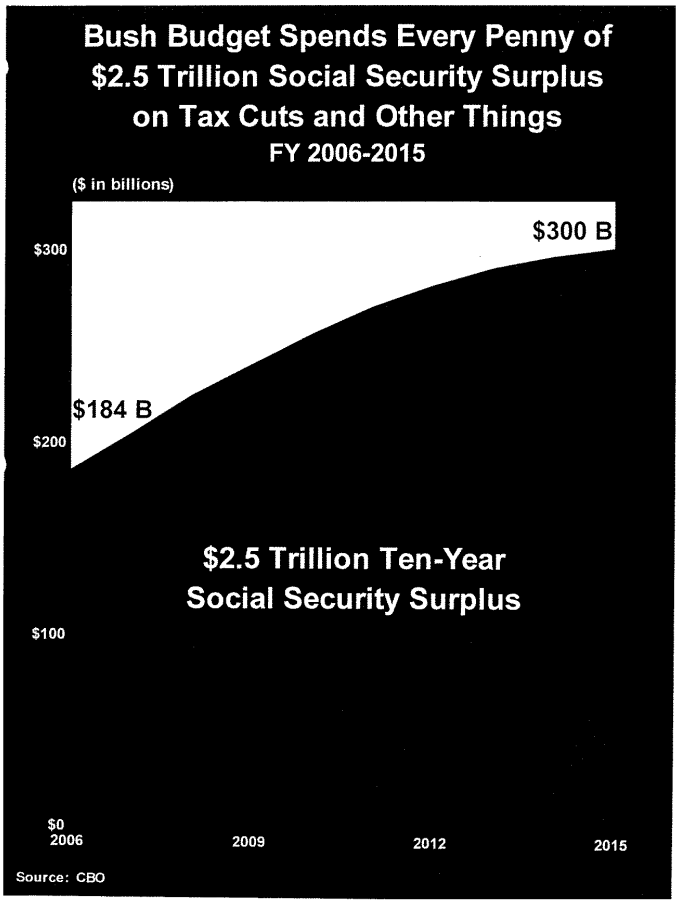
And if we look at this chart, the green bar here shows the Social Security surpluses, the blue bar shows the Medicare surpluses and deficits, the red bar shows the President's tax cuts, both those already passed and those that he advocates extending.



What you see here is that at the same time the trust funds of Social Security and Medicare go cash negative out in the range of 2020, the cost of the President's tax cut proposals explode as well. The combination drives us, as you can see visually here, right over the fiscal cliff.

We think we have big deficits now. But we have not seen anything yet unless we take action. That is why it is critically important that we understand the challenge facing the country and the need to respond.

Unfortunately, the President's budget proposals make this situation worse. Why? Because the budget he has sent us assumes that the Social Security money that is available over the next 10 years will all be used for other purposes. The Social Security surplus, every dime of it under the President's plan, will be used to pay for other things, some two and a half trillion dollars.



Some may be wondering, well, how can there be surpluses in Social Security when we are talking about all these shortfalls? As you know, for the near future, Social Security is taking in more money than it is spending for current Social Security retirees. It is that difference, the flow of income coming in over and above current expenditures, that constitute a current surplus. But that surplus won't last very long.

According to the Congressional Budget Office, and they have just revised these numbers, by 2020, more money will be going out than

is coming in. And by 2052, the Congressional Budget Office is telling us Social Security would only be able to meet 78 percent of its obligations. So clearly there is a gap to be closed here, and I think it is important that we all know the information.

The President's budget makes the problem worse because he is taking for the next 10 years all the Social Security money that is available and using it for other purposes. That is what he is doing. He is taking money that is raised through excess payroll taxes over and above what is needed to pay benefits now and he is taking that money, $2.5 trillion, and using it to pay for other things.

When Social Security was last reformed, I believe it is very clear that Members of Congress and the President at the time thought that these surpluses now would be used for one of two purposes, either to pay down debt or to prepay the liability that everybody knows is coming.

Unfortunately, that is not how the money is being used. The money is being used to pay benefits, but that money that is over and above what is needed to pay current benefits is not being used to pay down debt, not being used to prepay the liability, instead it is being used to pay for other things.

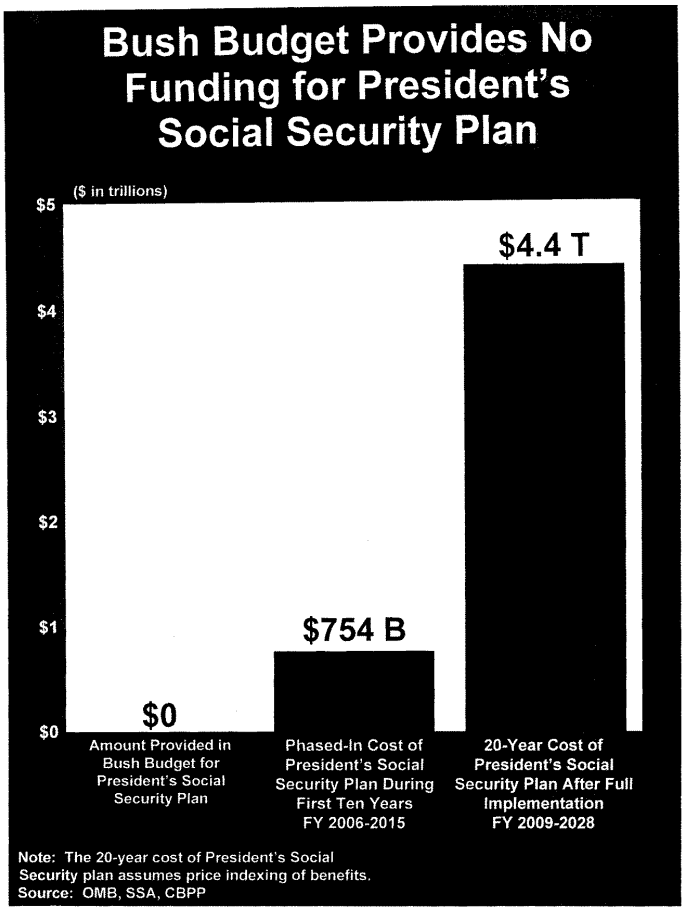
Many of you know I was the sponsor of lockbox legislation to prevent this, to prevent Social Security money being used for other purposes. I actually got that passed in the U.S. Senate, but it never became law. So now we are in a circumstance in which it is possible to use the Social Security surpluses for other purposes. I think that is a mistake, but that is, in fact, what is occurring.

The President makes the situation worse again by proposing to divert additional money out of Social Security to begin private accounts or individual accounts.

Let me be clear. I've always thought there was a kernel of a good idea in individual accounts, but I do not think that it is a good idea if it is financed by massive debt, by massive additional deficits, and I do not think that it is a good idea if it is financed by steep benefit reductions.

I proposed to my colleagues in 2001 actually setting aside, at that time, $900 billion in surpluses to either pay down the debt or to prepay the liability in Social Security. One way of doing that would have been to establish individual accounts. So I proposed to my colleagues a budget that would have provided $900 billion for that purpose. Unfortunately, that budget was not adopted.

Under the President's plan, over the next 10 years he will take $750 billion out of Social Security to fund the beginning of private accounts. That is just the tip of the iceberg, because over the next 20 years, the cost of the President's proposal is over $4 trillion. And the President proposes borrowing all of that money.



Adding to the already record deficit and debt, I do not believe that is wise. I do not believe that is sustainable. I think that hurts the younger generation, who will be expected to pay this bill. I think it hurts the current generation and the current economy by requiring additional borrowing at a time when we are already reaching our limits on borrowing.

What difference does it make? Well, very simply we are reading in the paper every day the difference it makes. As we borrow more

and more money, part of it is being borrowed from abroad. Here are the countries that we are currently indebted to.

We now owe Japan over $700 billion. We owe China almost $200 billion. We owe the United Kingdom over $160 billion. We owe the Caribbean Banking Centers over $90 billions. We owe South Korea over $68 billion.

I don't believe this borrowing from abroad makes us stronger. Some people say, well, this is an indication of how attractive we are as a place to invest money. That is one way to look at it. I don't

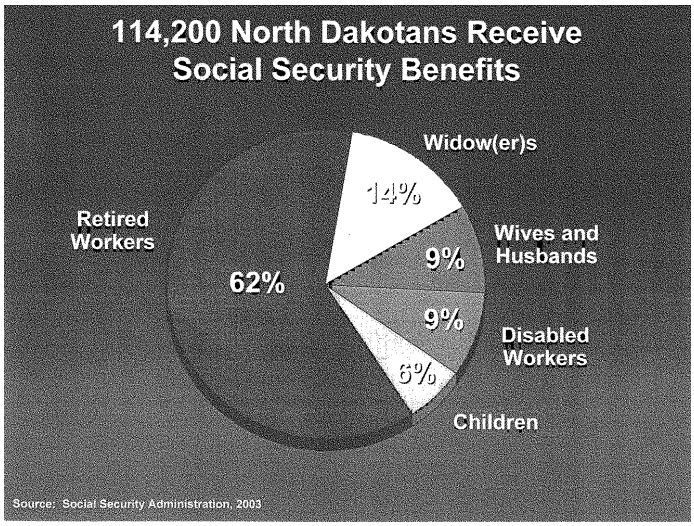
believe any country has ever strengthened itself by becoming more and more indebted to foreign nations and that is precisely the shape we are in.

What difference does it make? Well, we have seen the difference that it makes, haven't we? Just a few weeks ago, South Korea announced that they were going to begin to diversify out of dollar denominated securities because the dollar has been going down so sharply in value. Over the last two and a half years, the dollar has lost 33 percent of its value compared to the euro.

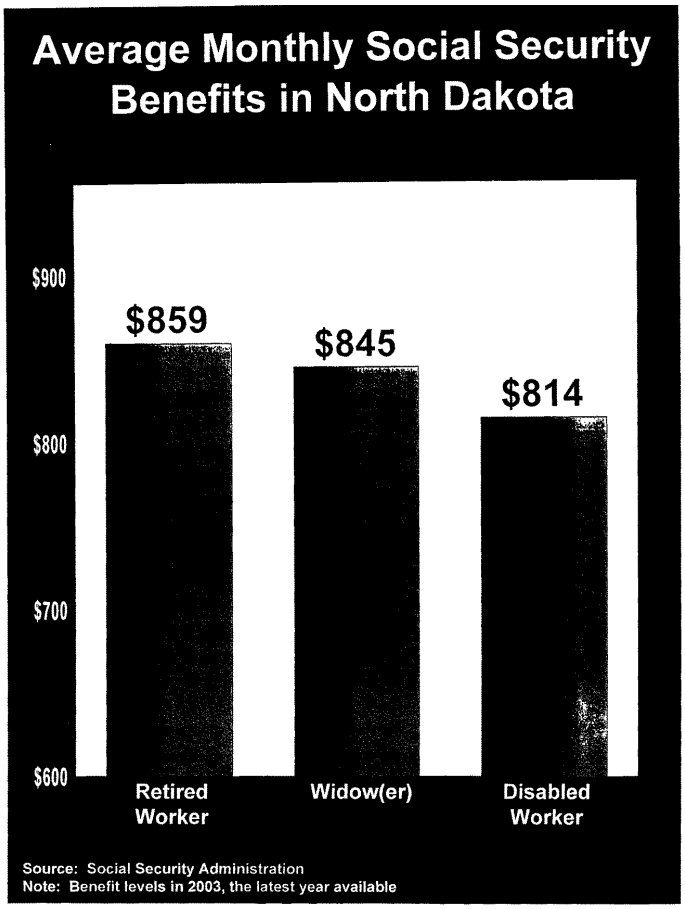
You saw a headline in Newsweek about the amazing shrinking dollar. That is what they are talking about, and it is the combined effect of budget deficits and trade deficits and the fact that we are borrowing more and more money from abroad. The result is people are putting less value in our currency.

They are concerned about our ability to pay all of these debts and they are concerned about what it means to the economic strength of America and what it means to the economic health of the world.

Let us go to the next chart. Social Security, I think we all understand, is critically important in our society. We have in North Dakota over 114,000 people that are receiving Social Security benefits, 62 percent of them are retirees, 14 percent are widows or widowers, 9 percent are wives and husbands of Social Security eligible beneficiaries, 9 percent are disabled, 6 percent are children. So we have a very large part of North Dakota's population that receives Social Security benefits.



The average monthly Social Security benefit in North Dakota is $859 for retired workers. For widows and widowers, their average benefit is $845. For disabled workers, their average benefit is $814.

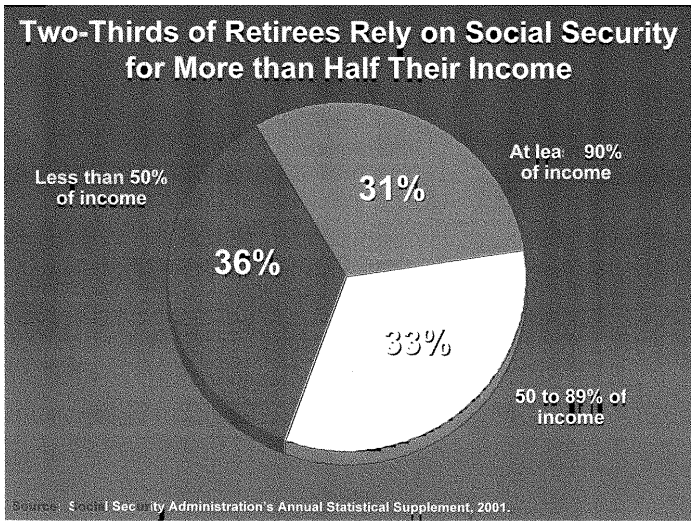


I have had many people come to me over the years and tell me how critically important these benefits are to them. I remember so well an elderly woman, frail and sickly, coming to one of my town hall meetings and telling me that the only income she had was from Social Security. She had no other income from any other source. She had prepared on a little piece of notebook paper her budget, and she had approximately $800 a month of Social Security income. She paid over $200 a month for rent. She paid over $200 a month for prescription drug benefits. She had $150 a month of

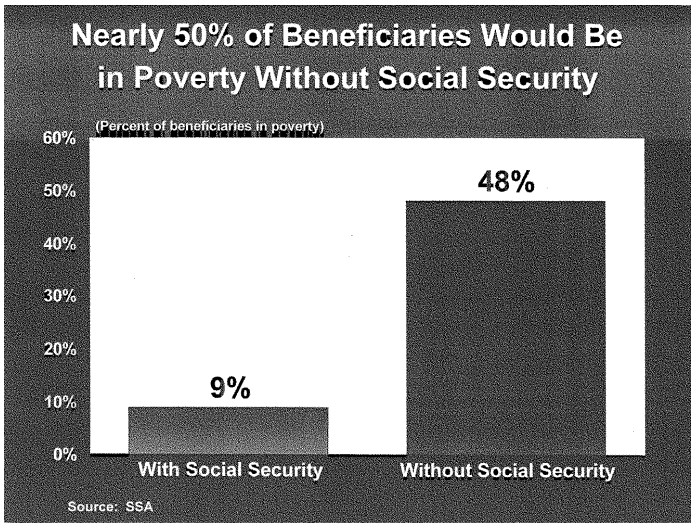
utility costs, water, sewer, heat and light, telephone, and you add it up. She had very little money left over.

When she calculated how much a month she spent on food, she had very little money left. Social Security was all that was standing between her and not being able to meet her most basic needs.

We know nationally that two-thirds of retirees rely on Social Security for more than half of their income. Two-thirds rely on Social Security for more than half of their income. Thirty-six percent get less than 50 percent of their income from Social Security, but 31 percent get at least 90 percent of their income from Social Security and 33 percent get 50 to 89 percent of their income from Social Security.

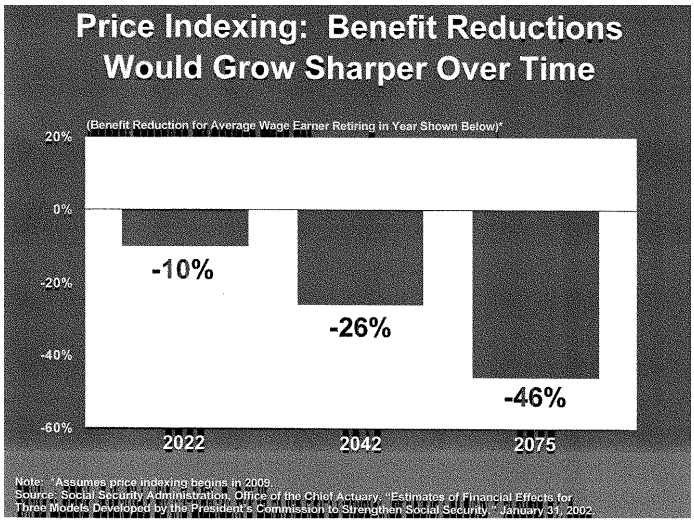


So clearly Social Security is playing a very important role in the economic lives of tens of thousands of North Dakotans. Without Social Security, we know that nearly 50 percent of beneficiaries would be in poverty. With Social Security, only 9 percent of seniors are in poverty. Without it, 48 percent of seniors would be in poverty.



I think it is important to understand the elements of the President's plan, because the first part of the President's plan is to sharply cut benefits over time by changing from what is called the wage index to a price index. The effect of that change grows very sharply over time.

In 2022, benefits on average would be cut 10 percent. By 2042, they would be cut 26 percent, and by 2075 they would be cut by 46 percent.

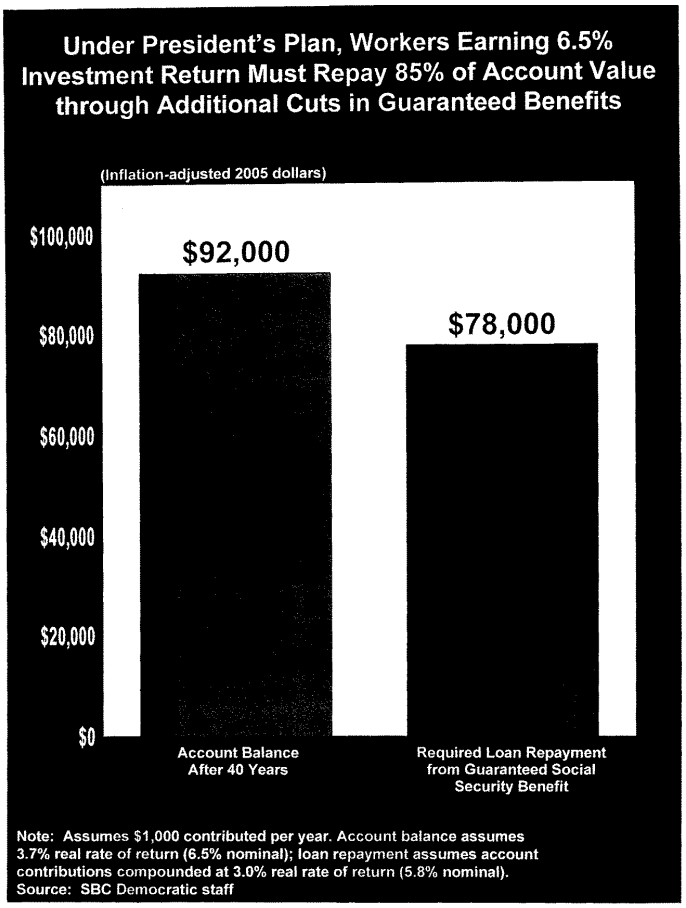


Now, those are steep cuts in benefits and it is important to understand that they apply to everyone. Whether you choose to have an individual account or not, those benefit cuts apply.

The President's private accounts work somewhat differently than has been described or at least the descriptions that I have heard. I have heard the President say that the private accounts belong to you and nobody can take it away from you. That is true as far as it goes, but that description leaves out a very important feature of his plan.

The way these private accounts work, as I've come to understand it from talking to the President's people and I have talked to them repeatedly, is somewhat different than the way it's been described. Let me give you an example.

If you set aside in a private account $1,000 a year for 40 years and you earned six and a half percent rate of return on that investment every year, at the end of 40 years you would have $92,000 in your accountin today's dollars. But that is not yours free and clear. Under the President's plan, they assume that money was loaned to you by the Social Security Trust Fund and they expect it to be paid back with interest.



What am I talking about? That thousand dollars a year that you put in your private account they assume was loaned to you by the Social Security Trust Fund, and they expect to be paid back that $1,000 a year that you put aside, that $40,000, plus they expect to be paid back with interest. They expect to be paid back a 3-percent real rate of return. That is 3 percent plus inflation.

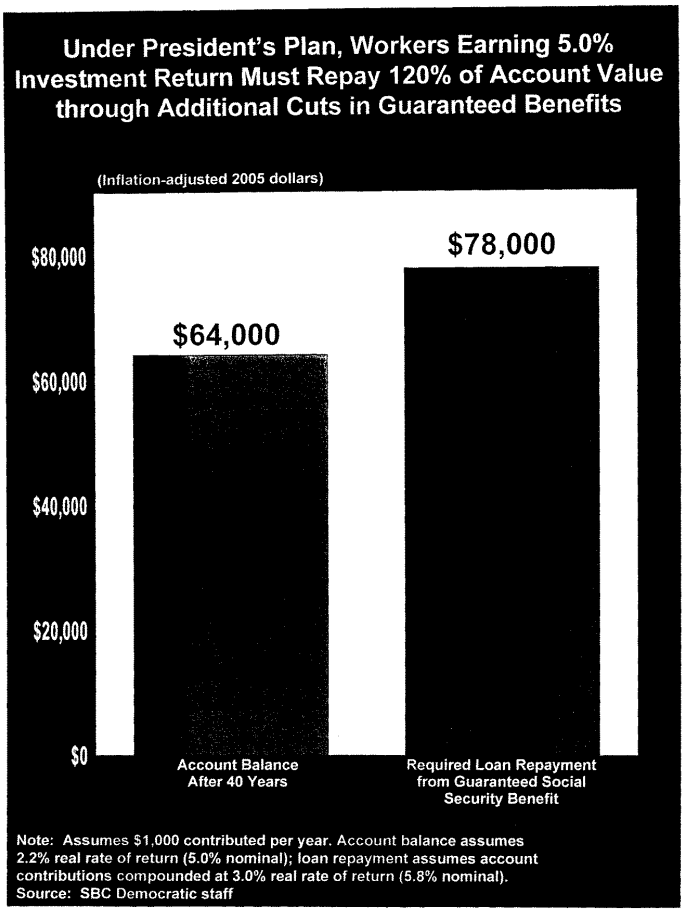
So in this example, you owe back $78,000, but you don't owe it back out of your individual account. You owe it back by taking a further reduction in your already cut traditional Social Security

benefit. Now, I know this is somewhat complicated and somewhat difficult to follow. I know it seems odd that you would have to pay back some of this money, but that is the way it works. That is the way it works.

Yes, you have an account. Yes, you have an investment. Yes, your name is on it, but it is also true that under the President's plan they assume much of that money was loaned to you and that you must pay it back.

Now, what happens if you don't get a six and a half percent rate of return on the money that you invest? What happens if you only get a 5-percent rate of return on the money that you invest in the private account? Well, here is what happens under that example.

If you set aside $1,000 a year for 40 years and you only earn a 5 percent rate of return, you would have in your private account $64,000. But wait a minute. You owe back the $78,000. Because remember, under the President's plan, the assumption is that your account contributions were loaned to you and you have to pay them back. The President's plan says the amount that you would be required to pay back is the $1,000 a year plus 5.8 percent compounded.



So you still owe back the $78,000, even though you only have $64,000 in your private account. Again, you don't pay it back out of your private account. That is the little wrinkle in all this.

Even though they assume it has been loaned to your private account, you do not pay it back out of your private account. You pay it back by taking an additional reduction out of your traditional Social Security benefit, which has already been cut.

Now, I know this sounds hard to believe, but that is the way it works. I have spent many hours with the President's representa-

tives so that I could understand, how it works. They have confirmed to me that that is how it works.

I think we will just end on that point and we will go into other explanations as we go forward.

Just to recap, No. 1, I agree with the President that we have got shortfalls in Social Security. In 2020, Congressional Budget Office says the trust fund will have more expenditures than revenue.

By 2052, they say Social Security will only be able to meet 78 percent of its obligations, so clearly we have got a shortfall. It is also true we have an even bigger shortfall in Medicare.

According to the General Accounting Office, a shortfall in Medicare is eight times the shortfall in Social Security, and on top of it all we are already running record budget deficits.

My strong belief is we must tackle all of these things. We need to put it all in front of the American people so they can see the challenges, the financial challenges, that we face.

The result of all this is we are borrowing more and more money. We are borrowing more and more money from ourselves, we are borrowing more and more money from abroad and that puts us at risk. If these central banks that are buying American debt decide they are going to buy less of it, we would then have to substantially raise interest rates in order to attract the capital to finance our growing dependence on foreign borrowing. That is the economic reality.

Yesterday you saw the Federal Reserve again raise interest rates and you saw the stock market go down. That is what is at risk here, an ever increasing pressure to raise interest rates, an ever increasing pressure to borrow more and more money and to go deeper and deeper into debt.

That is why I believe there is a kernel of a good idea in individual accounts, but I do not think it is a good idea if it is financed by massive borrowing. I do not believe it is a good idea if it is financed by steep benefit cuts.

Senator CONRAD. With that, I want to turn to our witnesses, and again I just conclude by saying the other concern I have with the President's proposal is the way these individual accounts would function. This idea that the money is loaned to you and you are required to pay it back makes it very likely that many people would owe back more than what they have in their private accounts. Again under the President's plan you don't pay it back out of your private account. You pay it back by reducing your already cut traditional Social Security benefit. That to me makes it a much less attractive plan.

With that we are going to turn to the excellent witnesses that we have with us today, and I am going to first call on Jan Cheney, the North Dakota State Director for the American Associated of Retired People. Welcome and please proceed.

STATEMENT OF JANIS S. CHENEY, STATE DIRECTOR, AMERICAN ASSOCIATION OF RETIRED PERSONS AARP

Ms. CHENEY. Thank you very much. Good morning, Senator Conrad. I'm honored to have this opportunity to testify on behalf of AARP North Dakota about Social Security and its importance for America's families.

We at AARP view Social Security as an obligation to current and future generations of Americans. We believe it is our responsibility to make sure their Social Security benefits will be there when they are needed.

And, we believe that we must advocate today to strengthen Social Security for our children and our grandchildren. Social Security faces challenges in the years ahead, but the solution should not be worse than the problem!

Social Security is the only guaranteed, inflation proof, lifelong benefit that millions of workers, present and future, can count on.

I believe that Social Security's promise embodies our deepest values as Americans. It reflects the obligations between generations, between parents and children, between grandparents and grandchildren. It also represents our commitment to those in retirement, those at work, and those workers who are disabled and their families.

The promise of Social Security has endured for 70 years and AARP believes we should not be putting an expiration date on it.

One of every five Americans faces retirement with no income except from Social Security. Social Security is all that stands between those beneficiaries and living in poverty. And for nearly two-thirds of the people age 65 or over, Social Security provides at least half of their income. That alone is reason enough to protect and strengthen Social Security's guaranteed benefits.

But Social Security wasn't designed just for retirement. It also provides valuable disability and survivors' benefits.

Here in North Dakota, Social Security is crucial to the economic security of many people. In December 2003, 114,220 people were getting Social Security benefits, including 71,190 retired workers, 15,860 widows and widowers, 10,410 disabled workers, and 6,990 children.

At AARP, we recognize the challenges that Social Security faces in the coming years, and we believe that the sooner we take action to meet those challenges, the smaller the adjustments that have to be made.

But we also recognize that there is a right way and a wrong way to renew the promise of Social Security for future generations.

Some are proposing to create private accounts in Social Security with money that would otherwise be used to pay benefits and go into the Social Security Trust Fund. That, in our view, is the wrong way to deal with the challenges facing Social Security. AARP is firmly opposed to private accounts that divert money from Social Security.

Private accounts that drain money out of Social Security clearly are a solution that is far worse than the problem. They would cut guaranteed Social Security benefits substantially while passing a huge burden of debt on to future generations. Even worse, they offer a false promise that people can build wealth that they might be able to pass on to their children and grandchildren.

These plans could leave our children and grandchildren with more debt, less security and, quite probably, less income. We should not leave such a legacy to our future generations.

AARP strongly supports private savings and investment accounts when they are funded by the individual or, hopefully, his or her employer.

Such private accounts are excellent savings tools, but in addition to Social Security, not in place of Social Security. Workers should not have to relinquish any portion of their Social Security benefits to invest for their retirement.

It is extremely important that our children and grandchildren begin setting aside money now to invest and save for their retirement. But, under no circumstances should we weaken Social Security by taking money from it to create private accounts.

Another fundamental fact we need to know, despite everything we may have heard, is that Social Security is not in crisis. It's not going broke. The trust fund will be able to pay 100 percent of promised benefits through 2042, or perhaps longer, when the youngest of the baby boomers will be 78 years of age.

After that, fully 70 percent of promised benefits could still be paid, even if no changes are made. Now is the time to take steps to strengthen Social Security's long-term solvency to ensure that full benefits can be paid for decades beyond.

We believe there are sensible ways to ensure Social Security's long-term solvency, and we will fight to ensure that the only guaranteed source of retirement security and long-term disability insurance for America's families is not put at risk needlessly.

Once we put aside the misguided idea of taking money out of Social Security to fund private accounts, we need to have an honest debate about the serious options available to us.

First, we must ask two important questions.

As a nation that claims to value the well-being, dignity, and security of every citizen, do we really want to abandon those principles and leave millions of older Americans to fend for themselves?

And, as a nation who has always recognized the bonds between parents and children, do we really want to use Social Security as a generational dividing line, pitting old against young?

The Reverend Martin Luther King once said, "Our lives begin to end the day we become silent about things that matter."

Social Security matters to us. We cannot afford to be silent about it. By speaking out and working together, we can preserve and strengthen Social Security for generations to come. Thank you.

Senator CONRAD. Thank you for that testimony.

And next we will hear from Bob Bixby, who is here representing The Concord Coalition. Let me just say this is an organization that I have great respect for because they have been many times a voice in the wilderness about the importance of being fiscally responsible, about paying your bills, and for the Federal Government to balance its books. Welcome, Mr. Bixby.

STATEMENT OF ROBERT L. BIXBY, EXECUTIVE DIRECTOR, THE CONCORD COALITION

Mr. BIXBY. Thank you, Senator Conrad. I'm very happy to be here today to discuss the future of Social Security, which is, of course, an important issue for all Americans. The Concord Coalition is a bipartisan organization. We are chaired by former Sen-

ators Bob Kerrey from Nebraska, a Democrat, and Warren Rudman, a Republican from New Hampshire.

Our organization was started in 1992 in response to the huge budget deficits that we had at that time. In the late 1990's when things turned into surpluses, people said, well, I guess you can disband and we said, well, no. There's still that long-term challenge out there that needs to be addressed and, unfortunately, in the last few years big budget deficits have come back again, so we're back to our original problem.

Short-term deficits and long-term deficits are even worse so, unfortunately, we are still around being the pain in the neck to both political parties and asking them to make the hard choices and do the right thing on fiscal responsibility.

It's often said in that regard the political system only responds to a crisis. If that's true, we're in big trouble, because there is no immediate crisis, but there is a very serious long-term problem, and that problem can be made so much easier if we start taking modest steps now phased in slowly over time to address it.

This isn't a problem—this isn't something that's going to sneak up on us. We know the problem is coming. The baby boomers are here. Senator Conrad and I used to be cute little kids some time ago with coonskin caps and, you know, the first of the baby boomers is going to qualify for Social Security in just 3 years. Kind of a frightening thought.

And that signals the beginning of a great demographic shift in this country, which will see a much older population. People are living longer, which is a good thing obviously. As President Clinton used to say, "This is a high-class problem," but it does make the future of Social Security and Medicare and the long-term care portion of Medicaid much, much more expensive and that's our problem, but we can see it coming if we can take some modest steps now to deal with it.

Basically with Social Security the problem is, and Senator Conrad's charts show this very well, that the system promises more in future benefits than it can deliver under current law. There's a set tax rate. There are benefit formulas. You plug in the demographics and the system is running an ample surplus at the moment, which is the reason we have no immediate crisis, and sometime in about 15 years the system will begin paying out more than it is taking in, and then it will look at that trust fund and say you got to cash in some of these bonds that have been accumulating.

And as a budget person, I look at the fiscal consequences of cashing in the bonds in the trust fund, which means the Social Security Administration will have to go to the treasury and say pay up, and so the treasury at that point will have to find the cash to make good on the bonds in the trust fund.

So it's important to keep in mind from a budgetary and an economic standpoint that once the system begins paying out more than it takes in the rest of us are going to have to make good on those promises and we have to look at the consequences of that as well.

Sometimes, you know, when we say there's no crisis or say that the trust fund is solvent for, you know, 40 or 50 years, when I say that that in itself is sort of a problem because it creates a false

sense of security that we don't have a problem for 40 years. You have to keep in mind that, say, in 2041 or sometime in the late 2040's even as the trust fund is fully solvent it will be running a deficit.

In other words, the treasury will have to make good on bonds that are worth about $300 to $400 billion a year. That's the cash, operating cash, deficit in Social Security at the time, so that's about the size of our entire Federal budget deficit at the moment.

So it's not an inconsequential thing. It's not as if we can say, well, the trust fund is solvent for 40 years so we don't have to worry about it. There are real world economic and budgetary consequences that hit far sooner than that. It's also important to keep in mind that Social Security is only one part of this major fiscal challenge that we have coming up.

The demographics are the same for Medicare and quite frankly the problem there, as Senator Conrad said, are much, much worse. If you sit around worrying, as I do sometimes—maybe I'm a little bit unusual. Most people don't sit around thinking about the budget deficit in 2030 I suppose, but if you do, you worry much more about Medicare than you do Social Security. The problems are much, much greater.

If you look at overall fiscal policy, it's truly unsustainable on its current course. Even as we have no immediate crisis but the—where we're headed right now and it's a combination of factors, but you look at the cost growth of Social Security, Medicare, and Medicaid, and by 2030 they could cost about 18 percent of the economy.

Now, this is the way that economists speak about these programs. It is a shorthand way but sort of bear with me. If the three programs now cost about 8 percent of GDP, let's just say they cost 8. By 2030, they could cost 18.

Now, that's more than we pay in taxes now. We pay about 17 percent in GDP in taxes. So what I'm saying is the cost of these three programs is going to put enormous pressure on the Federal budget. You know, we have to borrow for everything else, defense, education, health care, whatever in the discretionary side of the budget, homeland security.

I mean we're talking about a truly unsustainable situation, and the cost of borrowing is reflected in interest in the Federal budget. The Federal Government, like every other creditor, has to pay interest. The GAO that Senator Conrad referred to, the General Accounting Office, that now changed their name and they call themselves the Government Accountability Office, did some long-term scenarios and they found on our current course by 2040 net interest, just interest, costs on the debt could consume all Federal revenues.

Now, obviously that's not going to happen. I mean it is just ridiculous, but it shows what an unsustainable fiscal path we're on. We are on track where spending could reach like about 30, overall Federal spending about 30 percent of GDP by 2050 or so. That's about where it was—it is levels not seen since World War II.

Now, Federal tax rates hover usually around 18 percent of GDP. As I said, they are lower now. That's really the essence of our overall fiscal problem. You can argue about whether we should both spend and tax at 25 or 30 percent of GDP or you can argue about

whether we should both spend and tax at about 18 percent of GDP, but nobody in their right mind would argue that we can spend at 30 percent of GDP and tax at 18 percent of GDP. It doesn't work, and that's the course that we're on.

It's important to recognize this because it has implications for what we do with Social Security and Medicare what sort of reform options we pick.

You know, I mentioned before that the trust fund is solvent until the 2040's, but it will be running big budget deficits. Keep in mind that if our overall fiscal policy is going over a cliff by 2040, you know, it doesn't matter if the trust fund is solvent or not if the Federal Government is bankrupt because that's where the trust fund gets its money from, so you have to look at the overall fiscal policy.

Conversely, let me talk now about personal accounts, because that's gotten a lot of attention. If you're looking at this situation and you say I've got an idea. Let's borrow trillions of dollars more. That doesn't make any sense. We're already going over a cliff by 2040 or sooner. Borrowing trillions of dollars more in the interim only means that you're going to go off the cliff somewhat sooner.

Now, in fairness to the President's plan, what they have tried to show is that if you implement some of these plans, there's some models that show very large savings in future years, enough to balance the system. It's not the private accounts that get the savings by the way. It's the price indexing that Senator Conrad showed in one of those charts, which reduces the guaranteed benefit.

But again if fiscal policy is going over a cliff by the 2040's or sooner, a program that says we're going to get big savings in the 2050's and 2060's is irrelevant because the government is going to go off the fiscal cliff before then, so what we need to do is sort of step back for a minute and look at overall fiscal policy, look at Social Security's role in that.

When we look at Social Security reform, we can address first the basic problem, which is the imbalance between what the system is going to pay out and what the dedicated revenues are. Personal accounts don't address that. The President acknowledges that they don't address that. That's the essence of the problem with Social Security. It's going to require some hard choices. Somebody is going to have to give up something in the form of higher contributions, in the form of lower promised benefits.

If you phase them in now, it is not as bad of a problem. If you wait, you're going to have to have drastic tax increases, sudden benefit cuts, things that are very politically painful and the default option is that you just keep running up the national debt.

I should say that I error on the side of making benefit cuts. That's why The Concord Coalition is always so unpopular, but the reason why is that long-term spending growth is a real problem here. In order to pay full benefits that are promised under Social Security and Medicare and avoid massive deficits, you would have to raise taxes to levels that are unprecedented in this country.

Now, maybe future workers will want to pay those higher taxes, but if they do they would be a lot different than us because we won't pay them. So we're sort of assuming if we rely on tax increases alone or if that's our primary role of reform, the future tax-

payers won't mind paying much higher rates than we're willing to pay for ourself. We're a lot richer as a nation than we were about 40 years ago, but we pay about the same in taxes as a percentage of the economy.

Also, I think that the cost of Medicare is such that the cuts there are a lot more difficult. I think that the reason that I would favor some sort of benefit reductions in Social Security is that I think that people can adjust their behavior over time to make up for the savings and it's a lot more difficult to adjust for health care prices because you never know when one is going to hit. So if we're going to pay more money, I would rather do it for Medicare. That's what I'm saying.

Private accounts. Let me close by just saying about private accounts. I'm not an opponent of private accounts. I just don't like borrowing to pay for them. I think it makes a lot of sense to bring new money into the system and put the money into private accounts. I mean if you're going to—that could be the ultimate lockbox. If we bring new money into the system without some way of turning it into genuine savings, then it might just result in higher taxes today. The money is going to get spent on something else.

One way or the other, we need to increase savings. We need to increase individual savings. We need to get the government to stop running big budget deficits because that detracts from the national savings. So if we had a system of accounts that were funded with new money, that would increase savings.

That's not an easy choice either, because you're asking people to pay more money, but the more money wouldn't function like a tax. It wouldn't go to the government. It would be in your private account. It wouldn't have the deficit affect that the President's plan would have and it would increase savings.

So whatever we do here there are hard choices. None of us should be diluted into thinking there's a free lunch out there. We got an unsustainable situation, but it is not unsolvable. It is very important that we get to it soon. All options should be on the table, but whatever we do it should seek to increase savings both for the good of the economy and the good of the long-term retirement security of our population.

And we're not doing a very good job of being savers right now and it should be fiscally responsible, because in the long-term running up the debt is just—that's a tax increase on future generations. Somebody is going to have to pay for it.

So with that, The Concord Coalition never cheers people up. That's not our role, but I think that the good news from me is that I think that the American people are willing to make hard choices if things are explained to them.

I've always found in field events that we do at The Concord Coalition that the American people are actually quite rational and quite willing to sit down and go through and set priorities and make hard choices. That's what we've already done as a nation, that's what we need to do now.

Senator CONRAD. Thank you, Bob.

Next we will hear Venus Blake. Venus is a retiree, and she will tell us her experiences with Social Security and what it means to her.

STATEMENT OF VENUS BLAKE, RETIREE FROM FARGO

Ms. BLAKE. Well, good morning and thank you for calling this meeting together so we can discuss Social Security, and I guess after listening to Bob, I'm glad he made that presentation because I think it is a very, very serious problem that we need to be aware of and that we're not that aware of. It's too easy to go on living from day-to-day on our Social Security check without thinking of where it is really coming from.

My name is Venus Blake. My husband and I have lived in Fargo for 35 years. We were both raised in rural North Dakota. I was born in Hannah up in Cavalier County. He grew up in Underwood, North Dakota. We lived in small towns. We've lived in Fargo for 35 years and raised our family here. I'm 80 and he is 87, so we have been quite aware of the Social Security problem.

When I was growing up at a young age, there wasn't a Social Security problem or there wasn't Social Security. I can remember my parents, you know, were farmers. That was their heritage, and I can remember after the crops were sold—and this wasn't discussed around the dinner table but in the corners you'd hear well, you know, grandma has to have some money now and, you know, there's got to be money that's going to go to grandpa.

This is what we would be hearing, you know, in the background. This is where the retired generation got their income, from their homesteads, from the businesses that they had established and the next generation that was running them. It was a responsibility of this mature generation to support that older generation because there wasn't any Social Security and that's what we grew up knowing.

Now, my mother lived until she was 94, and so she had been receiving Social Security for quite a while, and her check was certainly not very large because the earnings were really quite small after the depression and but she was living with us. We were fortunate enough to have a large enough home that she had a room, but everybody else was busy. The mail that came nothing was usually for grandma there, you know, and grandma's main purpose in life seemed to be letting the dog in and out, you know.

Everybody else was going on with their life, but she knew the day that Social Security check was coming in the mail and she knew there was going to be something in the mailbox for her. It might not have been that large, but she would endorse that check and give it to me and I would cash it and take the money back to her and then so she would have her money.

And then every so often she would come down the stairs with this little note, you know, and say now when you're going to the store, Venus, you know the Cream of Wheat is almost gone and look for those good cookies. You know the ones I like.

She would be able to do that because she had this money from Social Security and it gave her some dignity that she wasn't just living off her relatives, you know, because she had been an independent person all her life, and I'm sure that this is true of any of your parents. This is the way they survived.

Now, I met my husband at Minot college. We were both teachers. I guess my first teaching experience was during World War II and we had to grow up pretty fast back there in the 1940's, and the

people that were in charge knew that any person that was interested in teaching were going to be herded into the educational system, so I found myself in a consolidated school with one room with 23 children and eight grades, and I have said to this day that I know that I learned more than they did in those 2 years.

But after that I went back to school and my husband also and he taught until his dad became ill with cancer and we decided we had to live in close proximity to them, so he took a job out at Garrison dam where people were going to work in those days and he never went back to teaching. I never went back to teaching because I had four children and I was busy raising these four kids.

If we had gone back to teaching, we would have had a retirement system. We would have to have paid in and contributed but the school board would have also matched that. If we worked for the railroad, we would have had a retirement, but we worked for small businesses and a lot of times I was self-employed so we paid into the Social Security system on our own.

We realized we were not having a retirement from anybody else. We knew that anything that we had would come from our own earnings and from our own property, so we knew that we had that responsibility; although, it certainly wasn't easy to put aside retirement and set up retirement like we're saying to our children now should be setting up retirement, but when the kids were going to school the most important thing was that they get their education. Our retirement was going to be coming after these kids were educated and it did.

When we were ready to retire, we had lived quite frugally. We hadn't gone on vacations and blown it so we owned our house, we owned our car, and we had Social Security. We're very, very glad that we have that Social Security that we get now.

My husband gets a small veteran's pension and we had a little inheritance, but without the Social Security we would be in very, very tight straits, and I think about so many other people in North Dakota that don't have retirement through their work because there weren't the kind of businesses.

We had so many rural—our farmers didn't have a chance to set up. The time came when there were systems set up and now we have the 401 plans but then there weren't plans. People just had to save for themselves for retirement and this is what we had to do.

Like I said if it weren't for that Social Security that we get now, life would really be very, very tough, and I guess as I said I'm glad to hear what Bob had said, you know, how important a system it is and that it is a system that has to be maintained and especially for us around here who have not been in positions to be working for companies that are going to have a retirement system set up.

I don't know how many of you out here in the group are receiving retirement from their work other than what they had paid in. I know those of us that are old enough are certainly on the Social Security system, but how much other money is coming in to your pockets I don't know but I do know, you know, that those of us that lived here in North Dakota it isn't as great amount as if this meeting were being held out in the Twin Cities where most of you would have worked for another company and would be receiving a

retirement, but here in our rural state we really do depend a lot on Social Security.

And as I said, again thank you for bringing up and giving us this occasion to talk about it and discuss it because it is very important to us.

Senator CONRAD. Thank you very much, Venus. An excellent testimony. I think it kind of brings us all back to the reality of real life and what real people's economic and financial lives are like.

Stuart Savelkoul, why don't you proceed.

STATEMENT OF STUART SAVELKOUL, HOUSING COORDINATOR AT DICKINSON STATE UNIVERSITY

Mr. SAVELKOUL. My name is Stuart Savelkoul. I grew up in Beulah, North Dakota, and graduated from Beulah High School. In 2004, last May, I graduated from Dickinson State University with a bachelor of arts degree in history and political science. Currently, I'm the Housing Coordinator at DSU and I'm in the process of applying for law school.

Senator Conrad, it's an honor to be here. It's certainly an honor to be up here at this table with such distinguished witnesses. I'm not sure I fit in the puzzle but I'm not here because, you know, I was the student body president at DSU. I'm not here because you know I'm a college graduate looking to go to law school.

I'm here solely because I'm 22 years old, and if you recall the charts that Senator Conrad showed earlier, those years, 2042 and beyond, those are talking about me and my friends and, you know, siblings. That's us.

And what's more, I'm a 22-year-old who's planning on retiring and staying in North Dakota for the rest of his life, which, as you know, I understand with the recent out-migration problem makes me one of six. But like many of my peers, I've heard so much about the funding challenges facing Social Security that I wonder whether I'll ever see a benefit check from the system that I'm going to pay into for my entire working career.

I'm particularly worried that, in the future, Social Security will not be there for the people who need it most. Clearly, as Senator Conrad and Mr. Bixby pointed out, doing nothing is not an option. However, I also have serious concerns about the riskiness of some of the changes that have been proposed.

In my testimony, I plan to outline why I think Social Security is facing a funding challenge, why I do not support privatization as a solution to this funding challenge, and what reforms I think Congress should consider because I have so much experience and I'm in a great position to advise Congress on what to do.

Under the current system of Social Security, there are a number of obstacles facing future retirees.

Unless changes are made, when people who are 25 years old now reach the age of 65, benefits for all retirees to be cut by 27 percent and could continue to be reduced over every year thereafter. According to the Social Security Trustees' Report, the average life expectancy is going to be higher then, between 85 and 89 years old, depending on socio-economic class levels.

So our scheduled benefits could be reduced by 33 percent from today's scheduled levels. For example, the average North Dakotan

who is drawing an $859 a month benefit check, it could mean a cut of 33 percent down to $567 a month, an almost $300 reduction in benefits. Looking at the rising cost of living, could mean the difference between someone's life and death.

If an individual is counting on Social Security benefits as a retirement plan, which a vast majority of people are as Venus so eloquently pointed out earlier, this will severally damage their cost of living and create a potential exodus into poverty status for a large percentage of the population.

Social security is supposed to be one leg of a sort of three-legged stool that also includes a private pension plan and other savings for people my age. For many retirees, the drastic reduction in one of those legs of the stool could have a catastrophic effect on the other portions as well.

For example, if the stock market takes a turn for the worse, than an individual could lose some or all of their invested moneys for retirement. An individual might be forced to drain their retirement savings much earlier than anticipated or perhaps a family emergency arises, possibly a serious medical issue, which would cause a person to drain their other resources with only Social Security to rely on for a period of time.

If Social Security benefits are reduced drastically, many families could face financial ruin. Clearly, we have to do something to make sure the safety net of Social Security is there for future workers.

You know, another problem with the current system is how Social Security is paid out. As of 2004, the Social Security fund was resting at approximately $1.7 trillion, accumulating over $150 billion annually. This essentially creates a pay as you go system, which worked without taxing the system extraneously.

However, the worker to beneficiary ratio, as most of us are aware, has fallen from 16 to 1 in 1950, to 3 to 1 at the end of 2004, and it's not going to take very long before that ratio drops from 2 to 1, leaving a financial vacuum.

This dropping ratio, coupled with the impending baby boomer retirement scheduled to begin in 2011, is going to leave many working-class citizens paying higher taxes or taking cuts in their benefits.

In the 2000 U.S. census, only Alaska, Georgia, and Utah had populations where less than 10 percent of the population was 65 and older. This rate will only rise as life expectancies grow and family size increases.

So now that we've established that the status quo is unacceptable, I would like to examine a couple of the more publicized solutions to fixing the Social Security problem. A recent proposal from President Bush calls for allowing workers to invest a portion of their Social Security dollars in the market; however, this proposal is not without risk.

In a March 2005 report, the General Accounting Office observed that retirees have four main methods of financing their retirement years. These four categories were Social Security, pension funds, personal savings, and residual income from continued employment. Essentially they're banking on everybody working until they die.

Part of the beauty of this system is that each of these four categories operates independently from the others. Market impacts

might impact a person's pension fund, but don't affect our Social Security dollars or personal savings.

In short, the Social Security system provides just that, security.

Calls to privatize Social Security, or portions of Social Security, remove this vital protection. It removes the wall of safety and leaves a greater percentage of a person's retirement funds at the mercy of the stock market. A downturn in the nation's economy for whatever reason, terrorism, natural disaster, economic stagnation or some other unforeseen force, would impact a greater percentage of every retiree's retirement funds.

We would like to believe that the economy will always grow and improve and that the stock market will only go up, but any financial planner would be the first to tell you that that's not always the case. Under privatization, the security that many have come to expect from Social Security is reduced, rather than increased, because a greater percentage of those funds are now subject to the fickle whims of a macroeconomic system that the vast majority in this nation, myself included, cannot fully understand.

Now you're in for some, you know, youthful ignorance so keep up if you can.

Perhaps the easiest, fairest, and most sensible solution to the Social Security problem is to do nothing more than lift the cap on wages that are taxed for Social Security purposes. You see that's what's crazy. A person who makes $90,000 a year and a person who makes $2 million per year both pay the same into Social Security. Any income you make after $90,000 isn't subject to the 12.4 percent payroll tax that funds Social Security benefits.

Last month there was an article at The American Prospect Online and this fellow named Lawrence Mishel of the Economic Policy Institute argues that the elimination of the cap alone would virtually eliminate the projected Social Security shortfall over the next 75 years. What's more is that this plan is incredibly popular.

A recent poll in The Washington Post said that 81 percent of the respondents support eliminating the cap. Well, that's probably because 93 percent of the Nation isn't making $90,000 a year.

Audience member. Right.

Mr. SAVELKOUL. To put that in perspective, other possible solutions, including raising the retirement age, cutting benefits, or increasing the percentage that workers are actually paying into Social Security, couldn't even muster a majority of support amongst those surveyed.

You know, it's been more than 20 years since major adjustments have been made to Social Security to compensate for wage and population growth, and since that time a disproportionate gap has evolved between the wealthiest wage earners and that of typical, working-class, Americans.

As Mishel said, the top 5 percent of households earned 25.4 percent of all the wages in 2000. That's up from 17.6 percent in 1980. That's impressive, but even more impressive is that the upward redistribution of household wages accrued almost entirely to the top 1 percent, whose share of wages roughly doubled, rising from 6.4 percent in 1980 to 12.6 percent in 2000.

The increased earnings for the typical worker have been relatively flat. It only seems fair to make this adjustment to correct

the potential deficiencies of the Social Security system since middle-income families are bearing the brunt of all these cuts. As if that were not enough, one must remember that the wealthiest are not taxed at all for Social Security on the majority of their investment earnings.

The wealthiest 1 percent receives most of their income from investments and yet they can still claim the maximum Social Security benefits when they retire.

Now, as I said, this whole debate centers on those dates that Senator Conrad posted earlier and that everyone of these panelists have mentioned before me, but the difference between the previous witnesses and myself is that that's when I'm going to be entering into retirement and that's when everybody else my age is going to be entering into retirement.

Now, there's those out there that say somebody is going to have to bite the bullet and why not make it us? Well, I'm not willing to give up that easily. You know, if simple changes and small changes can be made to fix the problem, then maybe we should take a look at examining those before asking any generation, mine, yours, or any of those after us, to bite the potential bullet. Thank you.

Senator CONRAD. Thank you very much. Good testimony by all of this panel. Let me, if I can, now turn to questions for our panelists.

Bob, your organization recently ran a full-page ad in The New York Times saying that more debt is not the answer, and I saw that the ad was signed by Warren Rudman, former Republican Senator from New Hampshire, somebody who is very well regarded on both sides of the aisle; Senator Bob Kerrey, Democratic Senator from Nebraska; the former Secretary of the Treasury, Bob Rubin; members of your board.

What is the thinking of your organization as to why more debt is not the answer?

Mr. BIXBY. A sure answer is that we have enough debt already and that we shouldn't pile it on, but we highlighted in that statement, which is attached to my testimony. three reasons and there are probably five, but because for time purposes we only put three in the statement but, first, it wouldn't add to national savings.

If you're doing borrowing, the government is detracting from national savings, and we feel very strongly whatever you do on Social Security reform one of the benefits should be to improve national savings because we need it to help grow the economy.

Now and second, it would make the already precarious fiscal situation even worse as your charts pointed out. We have deficits back as far as the eye can see, and so if the solution is just to borrow more, obviously the deficits would get that much bigger.

And, third, we thought that that would send a very bad signal to the financial markets that are already concerned about the growing deficit and the amount of borrowing that we do from abroad, and that if we adopt a solution that says we're going to borrow substantially for, you know, several decades, that would send a very bad signal that the government had no present intention of getting its fiscal house in order, and those were really the three big reasons that we oppose that approach and went to the

unusual extent of taking out a full-page statement in The New York Times to say so.

Senator CONRAD. OK. Janis, on behalf of AARP, you testified that private accounts are not the answer, at least private accounts financed out of Social Security funds. Has AARP taken a position on private accounts outside of Social Security?

Ms. CHENEY. AARP, Senator, has already supported people taking a balanced look at retirement and including a number of activities in their retirement planning, Social Security being the base and the guaranteed portion of that, other elements being pensions and savings, earnings, continued earnings, from work, and health insurance.

We see that as an ever more critical element of security in retirement and so absolutely the association is supportive of mechanisms or vehicles that would allow us to further enhance or support private savings options for individuals outside of the guarantee of Social Security.

Senator CONRAD. You know, clearly we have a problem. The problem we have is really a demographic problem. Just over three working people are now supporting each retiree. We know that is going to go down to two to one. So we have a problem. On top of that, we have a problem because in 2020 more money is going to be going out than is coming in through Social Security revenue. That presents a budget problem.

I am using CBO numbers here because in Congress we typically use Congressional Budget Office figures. By 2052, they say Social Security can only meet 78 percent of its benefits. So young people are saying, "Gee, I don't think Social Security is going to be there for me because there is this shortfall, there is this gap."

What would AARP say to those young people is the solution?

Ms. CHENEY. I think that this activity today is a significant part of the solution. There are, as I think we've all acknowledged and as you have mentioned as well, a variety of options that we can look at to strengthen and secure the Social Security program for many, many years into the future. What it will take is a balanced and reasonable national dialog about those options and some acknowledgement, also, that there might be a number of different groups that have to give a little in order to sustain the program in the long-term.

Senator CONRAD. I would like to ask the audience here, a show of hands, on some of these reform options that are going around about Social Security. After we have had a chance to ask the panel some more questions, I will open it up for suggestions, questions from the audience, statements from the audience.

I would just like to see how many here think Social Security is in crisis? How many would describe it that way?

[Some audience members raised their hands.]

Senator CONRAD. OK. How many would say, no, it's not in crisis?

[Some audience members raised their hands.]

Senator CONRAD. OK. How many would say that there is a long-term funding challenge in Social Security?

[Some audience members raised their hands.]

Senator CONRAD. OK. How many here think that borrowing to address the President's proposal of establishing private accounts is

something that you would support? How many would say borrowing money to fund those accounts is something you could support?

[No audience members raised their hands.]

Senator CONRAD. How many would oppose borrowing to do it?

[Some audience members raised their hands.]

Senator CONRAD. You know, there are a whole series of options that the Social Security actuaries have come up with. Let me just run through a couple of them and get your reactions.

One idea is reducing the COLA, the cost of living adjustment, that's applied every year to Social Security benefits. So this year I think it is being adjusted by what? Three percent?

Ms. KUEHL. A little under.

Senator CONRAD. A little bit under 3 percent. If that COLA adjustment every year, instead of being 3 percent, was two and a half percent, that would solve, according to the Social Security actuaries, 40 percent of the problem, 40 percent of the shortfall. How many would support a proposal to reduce the COLA by one-half of 1 percent a year?

[Some audience members raised their hands.]

Senator CONRAD. OK. How many would oppose that?

[Some audience members raised their hands.]

Senator CONRAD. OK. Reducing the COLA by 1 percent a year, would solve 80 percent of the problem. How many would support reducing the COLA by 1 percent a year now?

[Some audience members raised their hands.]

Senator CONRAD. How many would oppose that?

[Some audience members raised their hands.]

Senator CONRAD. OK. Reducing benefits across the board by 3 percent for those newly eligible for benefits in 2005 and later would solve about 20 percent of the problem. Who would favor reducing benefits? How many would support reducing benefits by 3 percent across the board for newly eligible?

[Some audience members raised their hands.]

Senator CONRAD. OK. How many would oppose that?

[Some audience members raised their hands.]

Senator CONRAD. Increasing the retirement age, eliminating the hiatus in the normal retirement age. As you know, the retirement age is being increased to 67 but there's a period in which that's not done. Eliminating that and then indexing the normal retirement age by 1 month for every 2 years would solve about 30 percent of the problem. How many would favor extending the retirement age?

[Some audience members raised their hands.]

Senator CONRAD. OK. Now, how many would oppose that.

[Some audience members raised their hands.]

Senator CONRAD. Raising payroll taxes for employees and employers by a combined 2 percent. Let us say 1 percent for each. Right now each person, the employer and the employee, each pay 6.2 percent. If each of them paid 7.2 percent, that would solve 100 percent of the problem. How many would favor that?

[Some audience members raised their hands.]

Senator CONRAD. How many would oppose that?

[Some audience members raised their hands.]

Senator CONRAD. OK. Making all earnings subject to the payroll tax. As you know, currently there's a $90,000 cap. So you only pay Social Security on the first $90,000 of earnings. If you eliminated the cap, that would solve about 120 percent of the problem. In fact, you would not only solve the problem, you would raise more money. How many would support removing the cap?

[Some audience members raised their hands.]

Senator CONRAD. How many would be opposed to that?

[Some audience members raised their hands.]

Senator CONRAD. Of course, that would go all the way up, right?

Audience member. Sure.

Senator CONRAD. If you removed the cap, all wages would be taxed.

Audience member. No cap.

Senator CONRAD. Yes, that's a good way to say it, no cap. If instead you raised the cap to $200,000, so you would still have a cap but it would be at $200,000, that would solve some of the problem. How many would favor that?

[Some audience members raised their hands.]

Senator CONRAD. OK. How many would oppose that?

[Some audience members raised their hands.]

Senator CONRAD. OK. Investing 40 percent of the trust funds themselves in equities would solve about half of the problem. How many would support investing 40 percent of the Social Security Trust Fund in equities, that is stocks, rather than in government bonds? How many would support that?

[Some audience members raised their hands.]

Senator CONRAD. OK. How many like the idea of the President's private accounts?

[Some audience members raised their hands.]

Senator CONRAD. And how many would oppose that?

[Some audience members raised their hands.]

Senator CONRAD. How many like the idea of the President's private accounts if they are funded by borrowing? How many would still like it if it's funded by borrowing?

[No hands were raised.]

Senator CONRAD. OK. Again let me say this to you. I've always liked the idea of additional incentives for savings and investment. Why? Because we need investment in this country in order to grow, don't we? You have to invest in order to grow. In order to invest, you have to save because you need money to invest, so you have to save. I like the idea of more incentives for savings and investments for everybody.

I asked my staff go out and find out for me how much money we spend a year on incentives for savings. You know what they found out? We spend about $125 billion a year on incentives for savings. I said OK. Now, go find out for me how much money are we actually saving a year. How much money are individuals saving?

You know what they found out? About $80 billion. We are spending more money on tax incentives for saving than we're actually saving. How can that be? Well, the reason it happens is because people shift their investments and savings from those that are not tax favored to those that are. So we're not, unfortunately, getting

an increase in savings, but we're spending a lot of money to shift around where people are saving and investing their money.

So part of this puzzle, I have concluded, is to find a more efficient way of encouraging people to save and invest. I like the idea very much of encouraging people to save and invest to prepare for the future and that will also strengthen our economy because we need investment to grow. We need savings to invest. The more we save and invest, especially if it is positive investment, the better we will do.

And I don't know who mentioned it. I think Bob mentioned it perhaps. Correct me if I am wrong. The idea of incentives for individual accounts outside of Social Security, how many would like that idea?

[Some audience members raised their hands.]

Senator CONRAD. And how many would oppose that idea?

[No hands were raised.]

Senator CONRAD. Well, that's one of the first thing that we got unanimous support for.

OK. I want to go back, if I could, to the panel and then I'm going to open it up for people in the audience, and if you want to make a statement feel free to come up to the head of the room so that our stenographer can hear and we would ask you to identify yourselves and then make your statement or ask your question. Before that, I'm going to have a show of hands on a couple of other things that I've thought of too.

I wanted to go back, Venus, to your testimony. You are in the same spot as many people are in North Dakota, especially because for the years that you were working very few companies had separate retirement plans, did they?

Ms. BLAKE. Right.

Senator CONRAD. I mean really only the biggest companies did. Maybe you were fortunate enough to work for the Federal Government that did or maybe you were fortunate to work for a bank or as a teacher.

Ms. BLAKE. A railroad.

Senator CONRAD. A railroad. The railroad had a good retirement plan. Some of the insurance companies in North Dakota had good retirement systems. But an awful lot of people worked for small businesses and those businesses typically did not have a retirement plan separate and apart from Social Security, did they?

Ms. BLAKE. That's correct.

Senator CONRAD. Let me ask you this. You know, Social Security certainly has challenges, but there are some strengths too. One of the big strengths is it is a defined benefit. That is, you're assured of getting the amount of money promised under Social Security. It doesn't vary with how well you invest.

I don't know if you've seen today's USA Today. They have a big story about how many Americans are not very good at investing money. One woman who has a background in finance said she has not been a successful investor. Certainly many of us have lost money in the last several years.

I know I certainly did and I have a master's in business administration, I am a member of the U.S. Senate, and I am on the finance committee in the U.S. Senate. So if anybody has a flood of informa-

tion upon which to make good investment decisions, I should certainly be one, and I think with an awful lot of Americans I lost a lot of money.

Would you want to trade a defined benefit, that is a certainty of a check and a certain amount monthly from Social Security, for the opportunity to potentially make more by investing that money separately and on your own?

Ms. BLAKE. I personally would, but as I said there are other people that are much more interested in other—they have other interests, you know.

Senator CONRAD. So——

Ms. BLAKE. So I think maybe a part of the population would and a part would do better than others would do investing it.

Senator CONRAD. Yes.

Ms. BLAKE. And I guess the thing of it is don't sell when it's down.

Senator CONRAD. That's very important, don't sell when it is down. Well, you are exactly right. I think we all know some people would do better, some people would not do as well, and it raises the question what is the purpose of Social Security? Is Social Security to be a place where we invest in stocks on the hope of greater return and, of course, when you have the hope of greater return you also have greater risk. Is that the role of Social Security or is the role of Social Security to provide kind of that beginning guaranteed amount to try to keep people from falling into poverty?

Ms. BLAKE. I think that's it right there.

Senator CONRAD. You think that's what it should be?

Ms. BLAKE. Yes, I really do. Uh-huh.

Senator CONRAD. Let me just see a show of hands on that if I could from the crowd. How many would think the right role of Social Security is to be that part of your retirement that you can be assured you're going to get and is not at risk and it is not an investment risk? How many think that is the role of Social Security?

[Some audience members raised their hands.]

Senator CONRAD. How many think the role of Social Security should be to provide another investment vehicle with greater risk but the hope the possibility of greater return?

[Nobody raised their hands.]

Senator CONRAD. OK. Sarah, and I have not introduced Sarah Kuehl. Excuse me for that. Sarah is my Social Security expert, and she was once on the staff of Senator Kerrey, and Senator Kerrey was on the finance committee and very active on these issues. Sarah is somebody very, very respected by the way by both sides I think. My Republican colleagues tell me all the time she is extremely smart and very knowledgeable and I know that is the case as well.

I would like to put up the chart about how the President's individual accounts work, if we could put that up. I would just like to ask the witnesses if they knew from the descriptions they have heard or the descriptions they have read about did each of you know that you owed back money to the Social Security Trust Fund under the President's plan? And I start with you Janis.

Ms. CHENEY. I was aware that there was some sort of offset. I had not heard it explained as very clearly and specifically as you explained it. I appreciate that very much.

Senator CONRAD. Bob, were you aware of this provision?

Mr. BIXBY. I was aware of it because I follow this stuff obsessively, but I don't think it's widely understood how this works and what little personal control there would be over the personal accounts. So I think you have to dig very deeply to get that sort of understanding and it's sort of at odds with how the accounts have been portrayed generally.

Senator CONRAD. I'll tell you I've spent many hours with the President's representatives and, you know, the Secretary of Treasury, somebody I admire. I have had a long respect for his career. I have talked to Mr. Hubbard, who is the President's chief advisor on this matter, and I have spent, both on the plane coming out here and in my office, a number of hours talking to him, and I have gone over with him in great detail how this works and other representatives of the President as well, and I must say it took me a long time to understand how this really works.

Venus, had you had any understanding that you owe some of this money back under the President's plan?

Ms. BLAKE. Not really. I guess I had—from what I read, a lot of times I would get to the end of an article and it appeared that the writer was a little confused, but as I said I mean after this presentation, I have certainly reversed myself that I do not approve of the account so by being completely informed, it has certainly changed my mind in my thinking.

Senator CONRAD. OK. Stuart, were you aware that under this you would have an opportunity just in this example if you put aside $1,000 a year for 40 years, you earn six and a half percent each year, you would have 92,000 in your account, but it is not yours free and clear in the sense that they assume that money was loaned to you by the Social Security Trust Fund and they expect to be paid back with interest and you do not pay it back out of your private account.

That is the little wrinkle here. You do not pay it back out of your private account. You pay it back by taking a further reduction in your traditional Social Security benefit. Were you aware that that works that way?

Mr. SAVELKOUL. Not until, you know, a few days ago and, you know, believe it or not I don't spend, you know, nearly as much time on Social Security as some I guess but when you start doing your research you find those things out. I think honestly the way the President is attempting to sell his plan it comes off as though you're just transferring.

Senator CONRAD. Yes.

Mr. SAVELKOUL. That instead of paying into the Social Security Fund, you're paying into your separate account and that I mean that's the way you sell it, right?

Senator CONRAD. Yes. That would be pretty appealing to young people, especially I would think if they didn't know that that money was in effect loaned to them.

Mr. SAVELKOUL. Because especially when you consider the fact that so many people my age are so sure that they are not going

to see Social Security that the idea of being able to pay into an account with their name on it——

Senator CONRAD. Yes.

Mr. SAVELKOUL [continuing]. Is exactly like you said, very appealing. The reality of the situation is, no, you are still paying into the same fund and that you're essentially going to be loaned money to you. And if that's the case, you know, why does the government need to be involved at all? Why can't you take out a loan, invest it in the stock market and try to get it back at a higher rate than, you know, whatever your best interest rate is?

Senator CONRAD. There is one other thing I wanted to ask you, Stuart. How did you do your research for this?

Mr. SAVELKOUL. That's funny. I got called on Friday and it was we need somebody from North Dakota to come do this and I said, "All right. I'm there." So then I thought—so then I called up my friends and one of them is sitting out there—one of my friends sleeps up against the left wall on the political spectrum. I mean he's not comfy if he has to leave it for 2 seconds.

Another one of my friends is super Libertarian. He's conservative all the way and then I have another guy whose views are a little more centralized and it was essentially Stuart school. Teach me. Well, where do I fall and so they——

Senator CONRAD. And where did they do their research? I'm just kind of intrigued. Did they do it on the Internet?

Mr. SAVELKOUL. Oh, yes, the vast majority I mean.

Senator CONRAD. I was just interested because you had a lot of information.

Mr. SAVELKOUL. The same statistics.

Senator CONRAD. A lot of information and it has been a long time since I was in school. I wonder if you do it on the Internet?

Mr. SAVELKOUL. Oh, yes, and I mean a lot of the charts you used and a lot of the sources you cite are all right there on the Internet so it takes all of 5 minutes to get the information.

Senator CONRAD. Boy, has the world changed, hasn't it?

Audience member. Yes.

Mr. SAVELKOUL. What's hard is processing the information. You know, what's hard is taking a graph like that and understanding what it means.

Senator CONRAD. Right.

Mr. SAVELKOUL. That's where the tricky part comes in.

Senator CONRAD. OK. Are there other——

Mr. BIXBY. I just want to make one observation about that and building off of what Stuart said what it means. What that chart is showing in a different way is why the particular proposal doesn't address the problem that Social Security is facing, because what it does is it takes some money in and takes some money out. It rearranges the financing, but it's a wash. I mean you're still leaving the same hole that we've got now.

The offset prevents the diversion of accounts from digging a bigger hole for the long-term, but it doesn't address the main problems that we confront with Social Security.

Senator CONRAD. I must say it took me a long time to understand how this thing works. It is so totally different. Well, frankly, in listening to the President, it is so totally different than the way

he describes it. He never gets to this point, ever. He never describes this offset. He never describes that this money has been loaned to you and you got to pay it back with interest and I was here in Fargo with him.

I have listened to his State of the Union. I have listened to many of his speeches around the country. Not a single time have I heard him describe how this all works, and it was only in talking to his people that I came to understand how it works, and again I go back to the notion there are things that the President said that I agree with.

I think we do have a long-term funding challenge. I don't want to raise payroll taxes. He said he doesn't want to raise payroll taxes. I think payroll taxes are already too high and I think they are discouraging American companies from hiring American workers. I think we have actually built the payroll taxes up so high in this country that they are discouraging the hiring of American workers and I not only think that—I know it.

And anybody that's gone to any vacation place in the country, any place that has a lot of tourism, you will find an awful lot of foreign young people working, and I started asking the question why are there all these foreign young people working? Why aren't they North Dakotans? Why aren't they young Americans working at these tourist places, and you know what I found out? They don't have to take out Social Security on these foreign young workers and so there's a big financial incentive to hire foreign young people to work in these service jobs.

You have to wonder when you add up all the payroll taxes we have in this country. Social Security amounts 12.4 percent employer and employee share. Then you stack Medicare on top of it. You are up—Bob, what——

Mr. BIXBY. 5.3.

Senator CONRAD. 5.3.

Mr. BIXBY. 15.3.

Senator CONRAD. 15.3 for all of it. I mean that is a pretty big disincentive to hire American workers if you got to be paying payroll taxes on them. So I agree with the President. I don't think that adding payroll taxes is the answers.

I have always kind of liked the idea of these individual accounts, first off, if you don't borrow the money to finance it. I think that is a terrible idea, borrowing the money to finance them, but I do like the idea of establishing more incentives for savings and investment.

My own sense is it is probably best done outside of Social Security and we have got to go back to the drawing boards. The fact that we are spending more on incentives than we are getting on savings tells us that the design of our various retirement plans is not efficient, right? Isn't that what you would conclude? It is just not very efficient if we are spending more money than we are getting in savings.

So we have all these different plans. We got 401(k)'s. We have Roth IRAs. We have regular IRAs. Frankly, I think we have managed to confuse people. I think we have managed to confuse people and simplicity is very important in getting people attracted to the various opportunities.

I am going to open it up to people in the audience. If you would step up and identify yourself. That is very important because this is a formal Senate hearing. I know we are in an NDSU hall, but make believe for a moment you are in the U.S. Senate. If you would give your name and where you live so the stenographer can have that and then tell us what you think.

Mr. AABYE. My name is Carl Aabye. I live in Fargo. I've lived in Fargo most of my life. I barely made it through high school so maybe you fellows can help me out with this or I guess your lady right here can maybe.

Senator CONRAD. Yes. She is way smarter than I am.

Mr. AABYE. Maybe you can comment on this. As our national debt in a few years will become, say, ten trillion, can you see any possibility of the debt being monetized? If the money becomes only half as much, then the Government only owes five trillion. You know what I'm trying to say?

Senator CONRAD. I sure do.

Mr. AABYE. Do you see that coming down the road? I think it is already happening right now I believe.

Senator CONRAD. Did you say you didn't graduate from high school?

Mr. AABYE. Barely.

Senator CONRAD. You got a first-class college education somewhere because that is the great risk, isn't it? That is the great risk, that we run up this massive debt, and that one solution to it is to make the currency much less valuable and it is sort of already happening, isn't it.

The dollar has gone down 33 percent against the euro in the last two and a half years so that is how governments have done it in the past, isn't it? They ran up a big debt and then they just inflate their way out of it by, as you so aptly described, monetizing the debt, making their currency worth less.

So I am amazed when people say deficits don't matter. Of course deficits matter. You know, you think about Germany after World War I. What happened there? They had massive debts, didn't they, after World War I, and they did exactly what the gentleman describes and the currency became virtually worthless.

Yes, sir.

Mr. FOX. I have a related question.

Senator CONRAD. If you would——

Mr. FOX. Greg Fox, Fargo, North Dakota. I have a related question. I was watching C–SPAN today when I think he was testifying before Congress when Chairman Greenspan was describing how having surpluses or not having a deficit could be a problem. He said the economy needs that to operate, and very soon after that you started hearing this deficits don't matter stuff, and I mean now we're seeing the problems.

I've heard your great talk four times, Senator, but I know in Minot I heard you months and months ago and you were showing all these red numbers and people still had that deficits don't matter and they had nothing to relate it to.

My question is this. No. 1, what did Chairman Greenspan mean by that and, No. 2, if we have to run deficits, in other words to maintain the economy, banking, whatever, can somebody tell us

what that number is as a percentages of GNP or is there any—you see, we just throw these big numbers. Some of these people in the audience are still thinking deficits don't matter. Chairman Greenspan said so. I don't know.

Senator CONRAD. Yes. No, let us go back. Let us go back to the point. This is in 2001. Chairman Greenspan said he was concerned about the surpluses because he was concerned that we would pay down too much debt; that we would eliminate all the debt outstanding and that that would have some negative consequences. He came and met with me before he made that public statement, and I begged him not to make it.

Mr. FOX. Disastrous.

Senator CONRAD. I said, Mr. Chairman, if you say that, you will unleash the deficit dogs in this town and that's all captured in the book about the former Secretary of the Treasury, Paul O'Neill, this conversation that I had with Chairman Greenspan.

I said for goodness' sake let us wait and see and let us not bet on a 10-year projection. Let us see if we actually are paying off too much debt. Let us actually make certain that there is a risk and there is a danger of paying off too much debt.

Now, he has changed quite dramatically. He went to Europe and gave a speech in which he said we are taking on too much debt as a country and that is unsustainable.

The head of the General Accounting Office, David Walker, has just released a report and he says it is absolutely unsustainable. In fact, when Chairman Greenspan gave that speech, Robert Novak wrote a column and said that speech of Greenspan could have been written by Senator Conrad because Senator Conrad is obsessed with debt.

I am not obsessed. I am Scandinavian. I am not obsessed with much of anything, but I am concerned about debt and I just say this to you. Perhaps one reason I have always been concerned about too much debt and what do I mean by too much debt? I mean when the debt is growing much faster than the size of the economy. That means in relationship to the economy your debt is growing, right? Because, obviously, we can handle a certain level of deficit. We can handle a certain level of debt just like a family can, just like a company can. The danger is when your level of debt is growing much more rapidly than the size of your economy and that is what is happening to us now.

And the reason it matters is because you got to get the money from someplace. Where are we getting it from? Increasingly we are getting it from foreign investments and foreign central banks. The debt, the foreign debt, holdings of the U.S. Treasury has gone up almost 100 percent in the first 3 years of this administration. Now, that is an unsustainable course clearly.

Foreign central banks are warning us it is unsustainable. It is not just them warning us. We have got one of the foremost investors in America that's warning us it is unsustainable, Warren Buffett. Hard to find a guy that's been more successful. What is he saying? He is saying, America, you are taking on too much debt, too much trade deficit and, in fact, what is he doing? He is betting against the dollar.

He just issued his report on March 5th, you know, his very famous annual report, and he says in there, America, wake up. Do not keep doing this. You are going to have very adverse consequences if you keep spending more than you can afford as a country.

So that's my own strong belief.

Mr. FOX. Can you give me a number? I guess I'm thinking in my mind is there a number? I'm looking at Bob over there too. Is there a number of percent of GNP so we know how much is too much? I've never heard.

Senator CONRAD. You know, I have asked this question repeatedly of the top economists in the country and here is what they say to me. Senator, nobody can tell you and here is why they cannot tell you. We know that our debt as a share of our gross domestic product was over 120 percent after World War II. We are close to that now. Our debt as a share of GDP went down into the 25s. You know, we were working down our debt. Now it has gone back up the other way. The difference is our position in the world has also changed.

After World War II, we were dominant, weren't we? There was nothing close to us and at that time we were paying down debt. Paying down debt. What they say to me is nobody can tell you. It is a calculus of confidence because as you are running up this debt, as you are borrowing more and more money from your own people through issuing treasury bonds and you are borrowing from foreign investors and foreign central banks, the danger is they decide you have borrowed too much and they cut back what they are loaning to you and then the only way to float this boat is to raise your interest rates to attract more money. Of course, what does that do?

That slows down the economy because an interest rate increase affects all debt, all government debt, all Federal, all state, all local, all corporate debt, all individual debt, and that is a much bigger anchor on the economy than anything else.

Yes, sir.

Mr. JONES. My name is Jeff Jones and I'm from the wrong side of the tracks in Minnesota.

Senator CONRAD. We even allow Minnesotans in here. Let me just interrupt for one moment if I could.

Mr. JONES. Sure.

Senator CONRAD. Mr. Bixby has a plane at 1:20.

Mr. JONES. Oh, sure.

Senator CONRAD. And for him to make that plane, we need to excuse him and we will do that but our thanks for coming, also our thanks for being a persistent——

Mr. BIXBY. Pain in the neck?

Senator CONRAD. No. I think you are more like the canary in the mine that is warning the rest of us when we are going off beam, and you take a lot of guff and I know you do from people in my party, from people in the other party. I have always felt that you do a great public service and I want to thank you for coming.

Mr. BIXBY. Thank you, Senator. Thank you for inviting me.

Mr. JONES. Anyhow, you're talking about privatizing—or private retirement. I have a lot of friends that live up on the Iron Range and they've bankrupted their pension. Thirty-five years they

worked for the mines, 40 years for the mines, and they were able to bankrupt out of those pension plans so Social Security is the only thing they have and I'm not totally familiar with it, but there's a trust account that covers bankrupt pension plans.

Senator CONRAD. Yes. There's a Pension Benefit Guarantee Corporation.

Mr. JONES. And as I understood, that was in the black and it's been raided so much now it's way in the red——

Senator CONRAD. It's true.

Mr. JONES [continuing]. Because they had to take over that.

Senator CONRAD. They have had to take over these pension plans that have been bankrupted, right?

Mr. JONES. Right.

Senator CONRAD. And so they get turned over to the Pension Benefit Guarantee Corporation.

Mr. JONES. All I want to finally say was that in my opinion, too, Social Security was, you know, seen as a social safety net and it wasn't perceived as an investment scheme or an insurance policy. It hasn't been—and not to be factious but instead of Mr. Roosevelt conceiving it, it was Charles Schwab. It was created to cover people like retired and their other retirement failed or had no retirement or for no fault of their own were injured in an accident or developed multiple sclerosis or some unforeseen problem was that safety net was there, and it's very important we keep it and I thought all of your people on there did an excellent job of testifying why we need it.

Senator CONRAD. Thank you very much. Let me just say I do remember very well having a man come to me who went to work for Enron right before it failed, and just weeks before Enron failed he had transferred all of his retirement funds to Enron's retirement funds, and he had a half million dollars built up over a lifetime. He was in his late 50's, and when Enron went down, all of that money that he had just put in was lost to him.

Now, you know, here is a man as I recall was 58 years old. I might not be quite right on that, but I think, as I recall, he was 58 years old. I will tell you that man was so distraught about, you know, seeing all his lifetime and his family wiped out.

Now, this has happened closer to home, hasn't it?

Mr. JONES. Oh, yes.

Senator CONRAD. We have got people that worked in the mines and their companies went down, some of them. When they went down, they lost their pensions. Some of them went to PBGC. PBGC, as you have described, is under very severe pressure because of what is happening. We have Enron going down. We have mining companies down. We have airlines going down and so more and more pressure gets put on the Pension Benefit Guarantee Corporation to pick up those failed plans.

Mr. JONES. The Chinese came in and bought the mines too.

Senator CONRAD. And we are increasingly dependent on borrowing from Japan and China. Does that strengthen then America? I don't think so.

We have run out of time. We had indicated to the University that we would end this hearing at 12:30 and we will be good to our word.

I want to thank the witnesses. Thank you for your excellent testimony and thank all of you for participating. The hearing is adjourned.

[Whereupon, at 12:33 p.m., the committee was adjourned.]