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USE OF AN EXPERT PANEL TO DESIGN LONG-RANGE SOCIAL SECURITY REFORM

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

SECOND SESSION

APRIL 1, 1998

Serial 105–70

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE
56–323 CC WASHINGTON : 1999

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USE OF AN EXPERT PANEL TO DESIGN LONG-RANGE SOCIAL SECURITY REFORM

WEDNESDAY, APRIL 1, 1998

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

The Committee met, pursuant to notice, at 10:10 a.m., in room 1100, Longworth House Office Building, Hon. Bill Archer (Chairman of the Committee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
March 25, 1998
No. FC–12

Contact: (202) 225–1721

Archer Announces Hearing on the Use of an Expert Panel to Design Long-Range Social Security Reform

Congressman Bill Archer (R–TX), Chairman of the Committee on Ways and Means, today announced that the Committee will hold a hearing on the merits of establishing a bipartisan panel of experts to design long-range Social Security reform and how best to engage the American public in the process. The hearing will take place on Wednesday, April 1, 1998, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

The Social Security program impacts the lives of nearly all Americans. This year, the Social Security Administration will pay benefits to nearly 50 million retired and disabled workers and to their dependents and survivors. Nearly every worker and his or her employer pays Social Security taxes. Yet in the future, this vital program will start to run short of benefit demands.

The problem of Social Security insolvency is not unprecedented. In 1983, Congress enacted a variety of measures to address similar problems that the program was facing. These measures, in large part, were developed by a National Commission on Social Security Reform. Historically, the Congress has often relied on expert panels to thoughtfully and carefully deliberate over complex issues and report back to the Congress with a single set of recommendations for a solution. Forecasts of future Social Security insolvency and suggested remedies are being discussed more and more in the media and at kitchen tables all across the country. Americans want to learn more and share their views with their elected officials.

FOCUS OF THE HEARING:

The Committee will receive the views of Members of Congress, along with Social Security experts, on the merits of establishing a bipartisan panel of experts to design long-range Social Security reform and how best to engage the American public in the process.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) single-space legal-size copies of their statement, along with an IBM compatible 3.5-inch diskette in ASCII DOS Text or WordPerfect 5.1 format only, with their name, address, and hearing date noted

on a label, by the *close of business*, Wednesday, April 15, 1998, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 300 additional copies for this purpose to the Committee office, room 1102 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

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

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments. At the same time written statements are submitted to the Committee, witnesses are now requested to submit their statements on an IBM compatible 3.5-inch diskette in ASCII DOS Text or WordPerfect 5.1 format. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

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

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

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

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

Note: All Committee advisories and news releases are available on the World Wide Web at "http://www.house.gov/ways__means/".

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

Chairman ARCHER [presiding]. The Committee will come to order.

Good morning. Today's hearing has been called to begin a national dialog on saving Social Security and to discuss the creation of an eight-member, expert, bipartisan panel that will recommend to the Congress solutions to save Social Security. The panel would report back to Congress on February 1, next year, so I intend to pass this bill through Committee and through the House early this spring so the panel can begin its work.

[The National Dialogue on Social Security Act of 1998 follows:]

A Summary of Provisions—The "National Dialogue on Social Security Act of 1998"—Introduced by Mr. Archer, Mr. Kasich, and Mr. Bunning

TITLE I:

Establishment of National Dialogue

a. A National Dialogue on Social Security will be convened jointly by the President, the Speaker, and the Senate Majority Leader. The purpose of the National Dialogue is to engage the American public, through regional conferences, and national Internet exchanges, in understanding the current program, the problems it faces, and the need to find solutions that will be workable for all generations.

b. The Dialogue will be coordinated through two Facilitators (one appointed by the President and one appointed jointly by the Speaker and Senate Majority Leader), who will be appointed within 30 days of enactment. After consultation with the President and the Congress, final plans for the development and operations of the National Dialogue will be submitted to the President and the Congress no later than 60 days after the date of enactment.

c. A Dialogue Council is established to advise the Facilitators in the development and operations of the National Dialogue. The Dialogue Council will be composed of 36 members, 9 of whom shall be appointed by the Speaker, 9 by the Majority Leader of the Senate, and 18 by the President.

Those who are appointed shall be selected from a group of 54 individuals—consisting of 3 individuals nominated by each of the following 18 organizations; the American Association of Retired Persons, the United Seniors Association, the American Federation of Labor and Congress of Industrial Organizations, the National Hispanic Council on Aging, the Older Women's League, the Association of Private Pension and Welfare Plans, the Cato Institute, the Employee Benefit Research Institute, Americans Discuss Social Security, the Third Millennium, the U.S. Junior Chamber of Commerce, Americans for Hope, Growth, and Opportunity, the National Federation of Independent Businesses, the Concord Coalition, the National Caucus and Center on Black Aged, the Campaign for America's Future, the Heritage Foundation, and the Brookings Institution.

Members of the Dialogue Council shall include both men and women and will be selected to ensure that 12 members were born before 1946, 12 members were born in or after 1946 and before 1961, and 12 members were born in or after 1961. The Dialogue Council will meet at the call of the Facilitators.

d. In order to assure that the widest possible degree of opinion is received, to the extent practicable and as soon as possible after the date of enactment, each Member of Congress will develop ongoing systems of communications through the use of the Internet and other available electronic capabilities. These systems will be developed with grassroots organizations and other constituency groups within Members' districts. Such groups shall include, but not be limited to, key opinion leaders, journalists, business representatives, union members, and students of all age groups. The Facilitators shall appoint an Internet Dialogue Coordinator to assist Members in establishing systems of communication in their districts. The Coordinator will assist Members' offices in establishing local web sites, moderated chat rooms, and threaded news groups; assist Members in coordinating a national electronic town hall meeting on the future of Social Security; advise Members regarding the most effective technological means for reaching out to constituent groups; and work with other Internet-oriented groups to broaden the reach of Internet capability.

An Internet Advisory Board is established to advise the Internet Dialogue Coordinator in the most appropriate and effective means of employing the Internet. The Board will consist of 3 members, appointed by the Facilitators. Board members shall receive no pay, but shall be reimbursed for travel expenses.

The Internet Dialogue Coordinator shall periodically report to the Facilitators the results of the systems of communications.

e. The National Dialogue will operate by means of sponsorship by private, nonpartisan organizations of conferences. These conferences shall be convened in localities which are geographically representative of the Nation as a whole, and which shall provide for participation representative of all age groups.

f. The National Dialogue Facilitators will summarize their findings and submit these to the Bipartisan Panel to Design Long-Range Social Security Reform on an ongoing basis, based on information generated by participants in conferences conducted and constituent input received from Members' offices. The Dialogue will terminate January 1, 1999.

g. General revenues are authorized to be appropriated for the compensation of the Facilitators and the activities related to the Internet Dialogue.

TITLE II

The Bipartisan Panel to Design Long-Range Social Security Reform

Duties:

a. It will be the duty of the Panel to design a single package of long-range Social Security reforms for restoring the solvency of the Social Security system and maintaining retirement income security acceptable to six of its members and including the agreement of both Co-Chairs.

Membership:

a. Eight members; with four appointed jointly by the Speaker of the House and the Majority Leader of the Senate, two appointed by the President, two appointed jointly by the Minority Leader of the Senate and the Minority Leader of the House. These officials will designate two members of the Panel to serve as Co-Chairs. This arrangement results in equal representation of the two major political parties.

b. The members of the Panel will consist of individuals of recognized standing and distinction, who can represent the multiple generations with a stake in the viability of the system, and who possess a demonstrated capacity to discharge the duties imposed on the Panel. At least one of the members will be appointed from individuals representing the interests of employees, and at least one of the members will be appointed from individuals representing the interests of employers.

c. It will be the role of the Co-Chairs to provide leadership to the Panel and to determine the duties of and oversee the Panel staff.

d. A vacancy in the Panel will not affect its powers, but will be filled in the same manner as the original members of the Panel.

Procedures:

a. The Panel will meet at the call of its Co-Chairs or a majority of its members. A majority of the members will constitute a quorum, but a lesser number may conduct hearings. The Panel may hold hearings and undertake other activities as necessary to carry out their duties. Meetings, as determined by the Co-Chairs, held in order to conduct fact finding will be open to the public. Meetings, as determined by the Co-Chairs, held in order to determine policy, may be held in executive session, not withstanding any other provisions of the law.

Administration:

a. Members of the Panel will serve without compensation, except that members of the Panel who are private citizens of the United States will be reimbursed for travel, subsistence, and other necessary expenses incurred in the performance of their duties as members of the Panel.

b. The Panel will, without regard to the provisions of title 5, United States Code, relating to the competitive service, appoint a Staff Director who will be paid at a rate not to exceed the rate established for level III of the Executive Schedule.

c. In addition to the Staff Director, the Panel will appoint such additional personnel as the Panel determines to be necessary and may compensate such additional personnel without regard to the provisions of title 5, United States Code, relating to competitive service.

d. The Panel will incur other additional expenses, including, if necessary, contractual expenses as may be necessary to carry out its duties.

e. The Commissioner of Social Security will make such data and information necessary to the Panel to enable it to carry out its duties. The Panel may secure from any other department or agency of the United States such data and information as may be necessary to enable it to carry out its duties.

The Architect of the Capitol, in consultation with the appropriate entities in the legislative branch, will locate and provide suitable office space, necessary equipment, and such administrative support services as the Panel may request on a reimbursable basis.

g. The Panel will make its report to the President, the Senate Committee on Finance and the House Committee on Ways and Means no later than February 1, 1999. The Panel will terminate March 31, 1999.

h. Funds, not to exceed $2 million, are authorized to be appropriated from the Old-Age and Survivors Insurance Trust Fund to carry out the purposes of this title.

Chairman ARCHER. For tens of millions of senior citizens, Social Security has been a wonderful success. Written in 1935, Social Se-

curity has protected our seniors, reduced poverty, and strengthened our families. If ever there was a depression-era program that has done good work for citizens, it is Social Security.

But Social Security faces a long-term crisis. To solve it, politicians in Washington must begin now, and we must put partisanship aside. This may be the biggest test of our democracy since its inception. Can a democracy come to grips with a long-term problem and make difficult political decisions before we reach the cliff of desperation? And the jury is still out on that. We must bring the jury back with a positive answer because we're all in this together. From 116-year-old Esteller Jones of Waynesborough, Georgia—reportedly the oldest living American—to little Dillon Paul Keever who was born at 8:04 a.m. this morning at Memorial Southwest Hospital in Houston, Texas, as one of my newest constituents.

As we proceed, we must do two things: We must honor our commitments to today's seniors and those who will retire soon, and we must also protect young people so Social Security works well for them. Social Security must be intergenerationally fair.

At my request, the nonpartisan Congressional Research Service analyzed for retirees this year the amount of time it takes to recover the value of their taxes paid plus interest. The information demonstrates that Social Security has been a fabulous program to date, but for baby boomers and everyone younger there are major problems. For average earners who retired in 1980, they got back the retirement portion of their Social Security taxes and their employer's share of the taxes plus interest in just 3 years. When they turned 68, they had recovered everything. By any standards, that is a good deal.

But the same average earner today is 65 years old, making $25,000 a year, will live an average of 15 years; that is, they'll have to turn 80 before they get their money back. For most people, that's still a reasonably good deal.

But I'm afraid the good deal ends right around this year. For tens of millions of working people younger than 65, Social Security's problems have already begun. Average earning 48-year-olds will have to live to 89 to get their money back, and average 38-year-olds will have to make it to 91. And you should be aware that I have said average because if you are above average as a wage earner, it will take even longer as the benefits are reduced for those in higher income relative to the benefits for those in the lower income. If you are younger than 91, Social Security's message seems to be: eat well and get plenty of exercise because you will have to live into the hundreds to get a return on the Social Security money that's taken out of your paycheck.

We can't raise taxes to solve this problem because someone making more than $65,000 a year can really forget about it. Forty-eight-year-olds making $65,000—the maximum taxable wage base—will have to reach 104 years old to get their money back and 38-year-olds have to live to 117.

Now there is more to Social Security than money. There's family security, family protection, and peace of mind. However, each generation must be treated fairly, and that's the challenge that we face.

[The opening statement follows:]

Opening Statement of Hon. Bill Archer, a Representative in Congress from the State of Texas

Good morning.

Today's hearing has been called to begin a national dialogue on saving Social Security, and to discuss the creation of an eight-member, expert, bi-partisan panel that will recommend to the Congress solutions that save Social Security. The panel would report back to Congress on February 1st next year, so I intend to pass this bill through Committee and through the House early this Spring so the panel can begin its work.

For tens of millions of senior citizens, Social Security is a wonderful success. Written in 1935, Social Security has protected our seniors, reduced poverty, and strengthened our families. If ever there was a depression era program we can be proud of, Social Security is it.

But Social Security faces a long-term crisis. To solve it, politicians in Washington must begin work now and we must put partisanship aside. We're *all* in this together, from 116-year old Esteller Jones of Waynesboro, Georgia, reportedly the oldest living American, to little Dillon Paul Keever, who was born at 8:04 this morning at the Memorial Southwest Hospital in Houston, Texas.

As we proceed, we must do two things. We must honor our commitments to today's seniors and to those who will retire soon. We must also protect young people so Social Security works for them as well.

At my request, the non-partisan Congressional Research Service analyzed, for retirees this year, the amount of time it takes to recover the value of their taxes paid plus interest. The information demonstrates that Social Security has been a fabulous program to date...but for baby boomers and everyone younger, there are major problems.

For average earners who retired in 1980, they got back the retirement portion of their Social Security taxes *and* their employer's share of the taxes, *plus* interest, in just *three* years, when they turned sixty-eight. *That's* a good deal.

The same average earner who *today* is 65-years old, making $25,000 a year, will have to live 15 years, that is, they'll have to turn 80, before they get their money back. For most people, that's also a pretty good deal.

But I'm afraid the good deal ends right around this year. For tens of millions of working people younger than sixty-five, Social Security's problems have already begun.

Average earning 48-year olds will have to live to 89 to get their money back. Average 38-year olds will have to make it to 91.

If you're younger than that, Social Security's message seems to be eat well and get plenty of exercise, because you'll have to live into the hundreds to get a fair return on the Social Security money that's taken out of your paycheck.

We can't raise taxes to solve this problem because someone making more than $65,000 a year can really forget about it. Forty-eight year olds making $65,000, the maximum taxable wage base, will have to reach 104 years old to get their money back and thirty-eight year olds will have to live to 117.

Now, there's more to Social Security than money. There's family security, family protection, and peace of mind. However, each generation must be treated fairly and that's the challenge we face.

This morning, we're honored to be joined by three particularly distinguished guests representing three generations of Americans. Our nation's youngest senior citizen, Bob Dole; a baby boomer, Newt Gingrich; and Melissa Hieger, a generation Xer from the non-partisan Third Millennium. We also have a panel of experts from several organizations dedicated to saving Social Security.

My colleagues, the American people have never retreated from a crisis, and we must not do so on this issue. Our task is to solve this problem so when little Dillon Keever grows up and starts working, he'll never even know Social Security *was* in a crisis.

When it comes to Social Security, I suspect the American people are well ahead of us. We now must catch up with the people and do so in a bi-partisan spirit, remembering that young people have grandparents they love, and senior citizens have grandchildren they adore. We *are* in this together.

Chairman ARCHER. This morning, we're honored to be joined by three particularly distinguished guests representing three genera-

tions of Americans. Our Nation's youngest senior citizen—is that really true, you're our youngest senior citizen——

Senator DOLE. I think so. [Laughter.]

Me and Strom.

Chairman ARCHER [continuing]. Bob Dole; and a baby boomer, Newt Gingrich; and Melissa Hieger, a generation Xer from the nonpartisan Third Millennium.

We also have a panel of experts from several organizations dedicated to saving Social Security.

My colleagues, the American people have never retreated from a crisis and we must not do so on this issue. Our task is to solve this problem so that when little Dillon Keever grows up and starts working, he'll never know Social Security was a crisis.

When it comes to Social Security, I suspect the American people are well ahead of us. We now must catch up with the people and do so in a bipartisan spirit remembering that young people have grandparents that they love, and senior citizens have grandchildren that they adore. We're all in this together.

And I now yield to Mr. Stark for any statement that he might like to make on behalf of the Minority. And without objection, all Members will have the right to insert written statements in the record at this point.

Chairman ARCHER. Mr. Stark.

Mr. STARK. Thank you, Mr. Chairman.

Thank you for calling this hearing on the use of an expert panel to design a long-range Social Security reform. Your timing is excellent. We have a budget surplus. We can rather accurately anticipate the level of shortfall for the trust funds, and we actually have a good bit of time to proceed methodically. So, while I don't dispute your need for action, I'm baffled by your suggestion that this Committee delegate to another panel, at this point in time, this matter of utmost importance to our Nation. We basically have more experience in Social Security matters than any other panel that you could possibly assemble, and what better combination of policy expertise and political judgment could there be in this House than the Committee on Ways and Means.

I understand and I recall that a few of us, Mr. Chairman, were here in 1983 when we had this problem before, and we ended up with a commission because there was a political stall. But first the politicians tried to tackle the issue, then the commission came back with a solution, and we ended up again with *Pickle* v. *Pepper,* as you recall. And Pickle won—our colleague from Texas; Texans always win I suspect in this round. Mr. Chairman, we know there will be something that comes up in this whole resolution to Social Security that will be politically tough for us. We've got time. Why don't we find out what that tough decision is?

As we like to say oftentimes when you and I and Senator Dole in the past—we kind of go and get the chaff when we were having conference committees—let the staff deal with the majority of the technical issues; let's find out the issues surrounding the tough political votes. And we don't have to get into a fight over it, but those issues will certainly rise to the surface rather quickly. And let a panel then come back to us, if that will help us all, politically, to do the right thing. I just think that we're starting too soon to dele-

gate our responsibility to people who don't nearly have our staff experts, don't have our personal expertise, and don't go to our town meetings. I am confident there isn't any Member of this panel that doesn't go home every other weekend and hear from the seniors in our districts, and doesn't have dedicated staff people working almost full time on solving Social Security problems for our constituents. There is no other group in this country that has our collective ability to understand the problems and the benefits of this system.

So I would urge you, Mr. Chairman, to let our Committee work on this at least for the rest of this year. And we can come back, let's say after the election, literally, work in November and December when we won't have the pressures of an election facing us; at that time we can get our work done, and then hand the ball off to a commission, if it is still needed.

[The opening statement follows:]

Opening Statement of Hon. Pete Stark, a Representative in Congress from the State of California

Mr. Chairman:

Thank you for calling this hearing on the use of an expert panel to design long range Social Security Reform.

The timing is excellent. We have a budget surplus and we can rather accurately anticipate the level of shortfall for the trust funds. We have time to proceed methodically.

So, while I don't dispute the need for action, I am baffled by your suggestion that this Committee delegate to another panel this matter of utmost importance to our nation.

This Committee collectively has more experience in Social Security matters than any other panel that could possibly be assembled. What better combination of policy expertise and political judgment could there be than Committee on Ways and Means?

Through our hearing process, we can hear from the best thinkers of our day what the problems are and the ramifications of possible solutions.

Through our Town Meetings, we continue the national dialogue. Is there any one of us who doesn't frequently go home to their constituents to discuss Social Security coverage and solvency concerns?

Mr. Chairman, I'm ready to roll up my sleeves and start today. We don't need a commission or panel to do our work first. I recognize the Mrs. Kennelly, the ranking Democrat on the Social Security subcommittee for the balance of my time.

Mr. STARK. I'd like to yield now, if I may, to Mrs. Kennelly for the balance of my time. She's the Ranking Democrat on the Social Security Subcommittee.

Ms. KENNELLY. Thank you, Mr. Stark; thank you, Chairman Archer.

I think it's very important that we spend this year having a national dialog on the future of Social Security. Social Security has been our most successful program. Without it, one out of two elderly people would live in poverty, and so would millions who's parents have died or become disabled.

But the country is facing some serious demographic changes and we all know it. Life expectancy has increased significantly, and the large baby boom generation is nearing retirement. Changes clearly have to be made.

The American public has begun to engage in this debate. On April 7, in Kansas City, a bipartisan forum will be held to discuss Social Security. The forum is being organized by the American As-

sociation of Retired People and the Concord Coalition. In addition, the Pew Charitable Trust recently held a bipartisan national electronic townhall meeting linking 10 cities. Numerous other organizations—think tanks, citizens groups—are holding meetings across the city. Many Members of Congress, as Mr. Stark said, are having their own meetings. The Social Security Subcommittee already has had eight hearings. It's encouraging to see the range and the depth of the debate.

I question whether we need another mechanism, one which is expensive and complex, layered on top of this blossoming debate. For its part, the Congress needs to keep its pledge to save Social Security first. We must not spend the budget surplus, and we have to reform Social Security. As Alan Greenspan has said: We must resist the temptation to commit future budget surpluses prematurely. Acting now to spend the projected budget surpluses will damage our ability to protect Social Security for the future.

In contrast, drawing down the debt will clearly enhance economic growth. That is what we should be talking about. The result would be a rapidly improving standard of living for both future workers and retirees.

I look forward to this debate. We thank Mr. Gingrich and Senator Dole for being here.

[The opening statement follows:]

Opening Statement of Hon. Barbara Kennelly, a Representative in Congress from the State of Connecticut

Mr. Chairman, I think it is very important that we spend this year having a national dialogue on the future of the Social Security program. Social Security has been our most successful national program. Without it, one out of two elderly people would live in poverty. So would nearly a million children whose parents have died or become disabled.

But the country is facing some serious demographic changes. Life expectancy has increased significantly and the large Baby Boom generation is nearing retirement. Thus, changes clearly have to be made.

The American public has already begun to engage in this debate.

On April 7th in Kansas City, a bipartisan forum will be held to discuss the future of Social Security. That forum in being organized by the American Association of Retired Persons and the Concord Coalition. In addition, the Pew Charitable Trust has recently held a bipartisan national electronic town hall meeting linking 10 US cities—and has plans to do more. Numerous other organizations, think tanks, and citizen groups are holding meetings across the country. Many Members of Congress are convening town hall meetings in their districts. The Social Security Subcommittee has already held eight hearings. It is encouraging to see the range and depth of the debate. I question whether we need another mechanism—one which is expensive and complex—layered on top of this blossoming debate.

For its part, the Congress needs to keep its pledge to "Save Social Security First." We must not spend the budget surplus until we have acted to reform Social Security. As Alan Greenspan has said—we must resist the temptation to commit future budget surpluses "prematurely." Acting now to spend the projected budget surpluses will damage our ability to protect Social Security for the future. In contrast, drawing down the debt will clearly enhance economic growth—in a way that other commitments will not—and result in a more rapidly expanding standard of living for both future workers and retirees.

I look forward to today's discussion.

Chairman ARCHER. The Chair yields the balance of his time to the gentleman from Kentucky, Mr. Bunning, the Chairman of the Social Security Subcommittee for his statement.

Mr. BUNNING. I thank the Chairman for yielding. I'd like to just say a few words—not too much time.

First of all, Social Security, as everybody knows in this room, affects almost every American, and each of us has a stake in the future of this vital program. Forecasts of future Social Security insolvency and suggested fixes have made their way out of the beltway onto the kitchen tables all over this country. Americans are often well ahead of Washington when it comes to knowing what needs to really be done. Real Social Security reform cannot take place without Americans weighing in.

The fact that today we have a balanced budget and now see the potential significant budget surpluses for the next 10 years, gives us a golden window of opportunity to strengthen Social Security. We should not let that opportunity pass.

That's why I'm proud to join with Chairman Archer and Mr. Kasich as an original cosponsor of H.R. 3546, the National Dialogue on Social Security Act of 1998. This is just one more step—creating this national dialog—to getting all people talking about solutions. It is through people talking that consensus can be reached to find real solutions that will work for all our generations.

The next step is to put together a bipartisan panel of experts to actually design long-range Social Security reform. These individuals will hammer out a plan that will work for all of us. Of course, we have the ultimate responsibility for passing or not passing the real reforms in the Ways and Means Committee, the Social Security Subcommittee, but we need the dialog so that we have a consensus built up from the American people.

I'm looking forward to hearing from our panels today on their input on this very, very important bill, and look forward to working with each and every one on the Ways and Means Committee to craft a bill that will be acceptable to all generations.

[The opening statements of Mr. Bunning and Mr. Ramstad follow:]

Opening Statement of Hon. Jim Bunning, a Representative in Congress from the State of Kentucky

Social Security affects the lives of nearly every American and each of us has a stake in the future of this vital program. Forecasts of future Social Security insolvency and suggested fixes have made their way out of the beltway and onto kitchen tables all over the country. Americans are often well ahead of Washington when it comes to knowing what needs to be done. Real Social Security reform cannot take place without Americans "weighing in."

The fact that, today, we have balanced the budget—-and now see the potential of significant budget surpluses for the next ten years—-gives us a golden window of opportunity to strengthen Social Security. We should not let that opportunity pass us by.

That's why I'm proud to join Mr. Archer and Mr. Kasich as an original cosponsor of H.R. 3546, the "National Dialogue on Social Security Act of 1998."

Creating a National Dialogue is the first step to getting people talking. It is through people talking that consensus can be reached to find solutions that will work for all generations.

The next step is to put together a bipartisan panel of experts to actually design long-range Social Security reform. These individuals will hammer out a plan that will work for all of us. This Panel will help to focus our efforts so that we can get the job done for the American people.

I look forward to hearing the views and recommendations of our witnesses today.

Opening Statement of Hon. Jim Ramstad, a Representative in Congress from the State of Minnesota

Mr. Chairman, thank you for calling today's hearing to discuss H.R. 3546, the National Dialogue on Social Security Act.

A national dialogue on this important issue is long overdue. My constituents began this dialogue with me long ago at town meetings and through letters and calls. My constituents know the facts: the Social Security Trust Fund is nothing but a drawer full of IOUs and the ratio of workers paying into this magical trust fund to beneficiaries drawing out benefits is getting smaller every year.

As we all know, Social Security was originally designed to supplement individual retirement savings and pensions to allow seniors to live comfortably throughout their retirement years. For the most part, this has been a success and it is for this reason that Social Security must be protected and preserved.

Yet, this programmatic "safety net" also led many Americans to falsely believe Social Security alone was sufficient to support them through retirement. Today, far too many seniors do not have personal retirement sources to supplement Social Security benefits and find it hard to meet all their personal and medical needs.

And looking at the bigger picture, our country's savings rate is abysmally low across all age groups and compares miserably to that of our partners in the Group of Seven industrialized nations (G–7).

That's why I hope that our national debate will also address the related issue of personal savings. I am not only talking about the proposals to direct payroll taxes into special voluntary Personal Retirement Accounts, but also individual initiatives to save through mutual funds, IRAs or participate in 401k plans.

The demands on the Social Security system grow larger by the hour, but by addressing this issue now—before it is an overwhelming crisis—just may give us the time and flexibility to make changes that will actually protect and preserve the program for generations to come.

Thank you again, Mr. Chairman, for calling this hearing. I look forward to hearing from today's witnesses about designing long-range social security reform.

Chairman ARCHER. We do have a distinguished panel, and we're going to start off with Senator Dole who was a member of the Reagan Commission on Social Security Reform in 1982 and has enormous knowledge and background and experience, and besides that represents, I suppose, the senior citizens of today. So, Senator Dole, we're delighted to have you with us, and we'd be pleased to hear from you and your ideas on Social Security.

STATEMENT OF HON. ROBERT DOLE, SPECIAL COUNSEL, VERNER, LIIPFERT, BERNHARD, MCPHERSON, AND HAND; AND FORMER U.S. SENATOR AND FORMER SENATE MAJORITY LEADER

Senator DOLE. Thank you, Mr. Chairman, and Members of the Committee. It's good to be back in the Ways and Means Committee hearing room again.

I would say at the outset that this is an important issue, and when I look back over my legislative career I've been asked what was I proudest of, and I've picked out this effort in 1983 to rescue Social Security. When I look back over my period of 35½ years in the Congress, I just sort of picked that one out as one I thought was very important.

I appreciate the opportunity to address this group about my personal experience with the use of a panel of experts to address Social Security reform. And it's rather hard to believe that just over 15 years ago, on January 26, 1983, I introduced S.1, a bill to implement the consensus recommendations of the National Commission

on Social Security Reform. It was my view that the consensus reached by the Commission held the potential for marking the end of a bitter period of political partisanship. And I can tell you that it was very, very bitter, and I don't think it's going to change that much in a year or two. It was at that time that Republicans and Democrats, the House and Senate, the Congress and the executive branch, all demonstrated the degree of cooperation so essential for enacting a responsible Social Security financing bill.

Now, I never liked the line of the argument that said: Let's take the politics out of the process. Name a commission and let the wise men decide. I don't like that line of argument because I've always believed the American people have already selected a commission to deal with these things; it's called the Congress of the United States. But on rare occasions, as we found out in 1983, a commission can get the job done. And I would like to note that Chairman Roth and Senator Moynihan have a little different idea that they were all talking about, but it's time to begin Social Security reform.

And as you know, the long-term deficit today is actually greater than it was in 1982 and 1983. The Social Security crisis of the early eighties was actually more imminent because we were told in January if we didn't do something, the checks were going to be late in July. We were up against it; we had to do something. And I think now you probably have 10 years, but it's time to start.

The National Commission on Social Security Reform, of which I was a member, had been created by executive order 1 year earlier. And at that time, the Social Security Program had been embroiled in political controversy for months. The system moved closer and closer and closer toward insolvency as proposals for financial reform were subject to political attack and prospects for any bipartisanship seemed remote.

I think we started down the path to compromise, as I look back on it, largely due to just a happenstance in the U.S. Senate—and I'm certain there are others who played just as prominent a role. But I remember, I'd written an op-ed piece for the New York Times, which was published the day Congress opened on January 3, 1983, and I mentioned one of the challenges we had was Social Security. And I remember on that same day Senator Moynihan walking over to me and saying are you serious about that. I was then Chairman of the Finance Committee, and I said, "Yes, I'm serious," because our Commission had just about collapsed; we'd just about given up on getting anything done. So the two of us started, and we brought in more and more and finally we had the whole Commission back on track. And in a matter of 15 days we'd resolved our differences and proceeded to vote in the Commission. The vote was 12 to 3, which I thought was a pretty good vote.

We had a series of meetings. We brought in White House representatives, we had Democrats and Republicans. We made every effort to keep in close contact with all the members of the Commission. As we neared a compromise, we also kept in touch with every other group that obviously had an interest in this.

And so, on January 15, as I have said, we did what some thought was impossible: we took the politics out of Social Security for the first time in my memory. And it hasn't changed much since then. So we had the cooperation of the President. We had the cooperation

of Speaker O'Neill; we had the cooperation of the Majority Leader at that time—Senator Baker in the Senate. And so we put this consensus package together.

It wasn't the only accomplishment of the Commission I might add—and I'll ask that my entire statement be made a part of the record. We also reached an agreement—a unanimous agreement—on the size of the short- and long-term deficits in the Social Security Cash Benefits Program. In concrete terms, the Commission quantified the seriousness and the urgency of the financing program. Only 1 year earlier, we'd drawn these partisan lines between those who did not believe there was any financing problem at all until the year 2000—they were totally wrong. The Commission also provided a valuable forum for the diverse views on Social Security.

With the able leadership of then-Chairman Alan Greenspan, and with the expert assistance of Executive Director Robert Myers, we also had Bob Ball a member of the Commission—both he and Bob Myers have worked together—members of both political parties were able to work together in studying the Social Security financing problems and options for financial reform. In the final weeks before legislation was introduced, we engaged in very intensive negotiations—you know what those amount to. They were sort of free of political partisanship. I remember meeting in the Blair House. I remember working with Claude Pepper, among others, and we were all in there trying to get it done because we knew we were going to be responsible—we were going to be letting down about 40 million seniors—if we didn't do something. So I think the Commission, at that time, was the cornerstone to our success in reaching a consensus package.

Ultimately, workable legislation requires concessions from all of the parties who have a stake in Social Security. And I remember on this particular package, nobody liked it, which meant to me it was probably a pretty good package. And it passed by a good vote in both the House and the Senate. Not every Member was happy; some couldn't bring themselves to vote for it, which was fine. There were some things that obviously we all objected to, but overall we thought the system worked fairly well.

So, I think you are facing a different challenge now from the one we faced. Over the short term, as I said, the next 10 years or so, Social Security can continue to pay benefits. Over the long term, however, and the Chairman just alluded to this, it will not be able to honor the benefit commitments, and there is widespread recognition that impending demographic shifts may significantly raise Federal entitlement spending early in the next century. And I think you've got to make the change sooner than later. I don't know if you have 10 years, you may waste 9½ years, as we did; but I would hope that there would be some impetus to start on the program now and to get it done.

Then, as now, a balanced solution—an intergenerationally fair solution—will involve bringing the cost of Social Security into line with the willingness and the ability of our working population to finance the system. The tax burden is already heavy and the confidence of young people is critically low. There is growing sentiment that the value of Social Security needs to be improved for younger workers. There are a lot of proposals out there to let people invest

a portion of their payroll taxes privately. These proposals have benefits and risks that will have to be weighed carefully. And I think you have this very rare window of opportunity to make something happen in that area.

So, I'd say finally, we thought we had fixed the problem for 75 years. Obviously, we didn't fix it for 75 years, it was closer to 25 years. So, it didn't turn out to be the case because it's a very complex program—very complex problem—and a shift in only one variable over the long run can affect the long-term projections.

Yet, over the past 15 years, I think it's fair to say that two things have not changed: the importance of retirement security to this country and politics. They haven't changed. And I don't think they're going to change. Even though I call this my proudest achievement, I got beat up pretty well in 1996 on Social Security. We thought we had probably rescued the program at that time. So, I don't see the politics changing. But I see a number of Members of this Committee on both sides of the aisle who I think can work together, and perhaps this will be a step in that direction.

So, Mr. Chairman, there are 44 million Americans receiving benefits, and there are 148 million working people who support the system, and they deserve more than another quick fix. We've gone through all that process, too, that holds the system together until we have the next crisis which could be 5 or 10 years. And confidence in the long-term viability of Social Security will be restored only by enacting measures which reinforce personal responsibility, put the system on sound financial footing, and do so without imposing an unrealistic tax burden on present and future workers.

So I, Mr. Chairman, applaud your efforts. And I hope the efforts will be bipartisan. And I know sometimes that's difficult to do, particularly with an issue like Social Security. But the bottom line is, my experience with senior citizens—and now that I'm in that category—I don't think they are looking for solutions. I think they dismiss a lot of the political charges, and I think this would be a good step in the right direction.

Thank you.

[The prepared statement follows:]

Statement of Hon. Robert Dole, Special Counsel, Verner, Liipfert, Bernhard, McPherson, and Hand; and Former U.S. Senator and Former Senate Majority Leader

I appreciate the opportunity to be here today to talk about my personal experience with the use of a panel of experts to address Social Security reform. It's hard to believe that just over 15 years ago, on January 26, 1983, I introduced S.1, a bill to implement the consensus recommendations of the National Commission on Social Security Reform. It was my view that the consensus reached by the Commission held the potential for marking the end of a bitter period of political partisanship. It was at that time that Republicans and Democrats, the House and the Senate, Congress and the Executive, all demonstrated the degree of cooperation so essential for enacting a responsible Social Security financing bill.

Now, I never liked the line of argument that said, "Let's take the politics out of the process. Name a commission and let the wise men decide." I don't like that line of argument because I've always believed the American people have already selected a commission to deal with these things: its's called the Congress of the United States.

But on rare occasions, a commission can get the job done. And I would like to note that Chairman Roth and Senator Moynihan have each proposed a somewhat different way of getting the job done through legislation. However, the bottom line remains: it is time to begin Social Security reform.

Although the long-range deficit today is actually greater than it was in 1982–1983, the Social Security crisis of the early eighties was actually more imminent. The Social Security program was not going to be able to pay benefits on time beginning that summer. The National Commission on Social Security Reform, of which I was a member, had been created by Executive Order a year earlier, and at that time, the Social Security program had been embroiled in political controversy for months. The system moved closer to insolvency as proposals for financial reform were subject to political attack. Prospects for a bipartisan consensus seemed remote.

We started down the path of compromise largely due to a conversation Senator Moynihan and I had on the Senate Floor on the day the new members were being sworn in—January 3, 1983.

That started a series of meetings among Commission members, and eventually those meetings were enlarged to bring in White House representatives and representatives of the Speaker and others. We made every effort to keep in close contact with all the members of the Commission, and as we neared a compromise, we consulted with all who had a direct interest.

On January 15, 1983, the 15 member National Commission on Social Security Reform accomplished what some had said was impossible. With the cooperation and approval of President Reagan and House Speaker O'Neill, the Commission forged a consensus reform package with bipartisan support.

Agreeing to the essential provisions of a Social Security solution was not the only accomplishment of the National Commission. The Commission also reached unanimous agreement on the size of the short and long term deficits in the Social Security cash benefit programs. In concrete terms, the Commission quantified the seriousness and the urgency of the financing program. Only a year earlier, partisan lines had been drawn between those who did not believe there was any financing problem at all before the year 2000. The Commission also provided a valuable forum for diverse views on Social Security. With the able leadership of then Chairman Alan Greenspan and with the expert assistance of Executive Director Robert Myers, members of both political parties were able to work together in studying the Social Security financing problem and options for financial reform. In the final weeks before legislation was introduced, we engaged in intensive negotiations, which were, to a large extent, free of political partisanship that so seriously damaged efforts for responsible reform in 1981.

In my view, the National Commission was the cornerstone to our success in reaching a consensus package. Ultimately, workable legislation requires concessions from all of the parties who have a stake in Social Security, cue no one Member was happy with every specific recommendation, the important fact is that consensus was reached on how to save the system.

Today, the Social Security system is facing a different challenge from the one you and I faced, Mr. Chairman. Over the short term, the next 10 years or so, Social Security can continue to pay benefits. Over the long term, however, the system will not be able to honor its benefit commitments and there is widespread recognition that impending demographic shifts may significantly raise federal entitlement spending early in the next century. Change must be made sooner rather than later, to avoid more serious impacts on future beneficiaries as baby boomers begin to retire.

Then, as now, a balanced solution—an intergenerationally fair solution—will involve bringing the cost of Social Security into line with the willingness and ability of our working population to finance the system. The tax burden is already heavy and the confidence of young people is critically low. There is growing sentiment that the value of Social Security needs to be improved for younger workers. There are a lot of proposals out there to let people invest a portion of their payroll taxes privately. These proposals have benefits and risks that will have to be weighed carefully. You have a rare window of opportunity.

Back in 1983, we figured we had the problem solved for the next 75 years. Unfortunately, that didn't turn out to be the case. Social Security is extremely complex and a shift in only one variable over the long-run can significantly affect the long term projections. Yet, over the past 15 years, two things haven't changed: the importance of retirement security to this country—and politics. A panel of experts, such as you have proposed, can provide real solutions, which will serve as a lighthouse to help weather any political storm.

The American people, the 44 million receiving benefits and the 148 million working people who support the system, deserve more than another quick fix that holds the system together until the next crisis comes along. Confidence in the long term viability of Social Security will be restored only by enacting measures which reinforce personal responsibility, put the system on sound financial footing, and do so

without imposing an unrealistic tax burden on present and future workers. I applaud your efforts in moving the process forward, and wish you every success.

Chairman ARCHER. Thank you, Senator Dole.

Our next witness is Melissa Hieger who is here to speak for the younger generation that has a strong, strong interest in a program that is intergenerationally fair. Ms. Hieger, we're glad to have you with us and we would pleased to receive your testimony.

STATEMENT OF MELISSA HIEGER, NATIONAL BOARD MEMBER, THIRD MILLENNIUM

Ms. HIEGER. Thank you.

Good morning, ladies and gentleman. Thank you, Mr. Chairman, for including Third Millennium in this dialog about Social Security, the largest program in the Federal Government. We greatly appreciate the fact that you have chosen to include voices from all generations in this critically important debate today.

My name is Melissa Hieger, and I am a board member of the New York-based Third Millennium, a national, nonpartisan organization launched in 1993 by young adults offering solutions to long-term problems facing the United States. I am also a Ph.D. candidate in economics at Boston University. My research focuses on public pension reform and retirement policy.

Today you have asked me to address two issues: the merits of establishing a bipartisan panel to design long-range Social Security reform, and the best way to engage the American public in the process of this reform. I will address these issues one at a time.

Regarding the proposed panel, it is fair to ask: Is it really necessary? After all, the 32-member Kerrey-Danforth Commission in 1994 effectively laid out the options for reform, and that panel's co-chairman made reasonable recommendations that are still under consideration today. Then 15 months ago, the President's 13-member Social Security Advisory Council issued a report that presented three divergent paths for Social Security. Clearly, we know what our reform options are.

After reading your proposal, Mr. Chairman, you have convinced me and my colleagues that your approach would help achieve Social Security reform. For example, we agree that members of the panel should be named by the administration as well as by Congress so that both branches have stake in the outcome. You have wisely set the deadline at exactly 10 months hence so the panel must move expeditiously. And you have designed the panel to be small so that building support will likely be simpler. Clearly, you are trying to bring the process of Social Security reform to successful completion.

But I do have one question. Have you considered modeling this new panel after the Base Closure Commission? As you will recall, in that instance, Members of Congress took an up or down vote on the Commission's full package of recommendations rather than evaluating them through a series of congressional Committees that would likely have rendered them unacceptable. Isn't it possible that in the case of Social Security, an equally contentious political issue, the House Ways and Means Committee and the Senate Fi-

nance Committee would want to amend whatever the bipartisan panel proposes and in the end undo their fragile agreement? This is our main concern, since long-overdue Social Security reform has been delayed time and time again.

Regarding the composition of this proposed bipartisan panel, I would suggest that the bill mandate that two panel members, one from each party, be Americans born after 1960. If this panel is comprised exclusively of white males over the age of 50, it will have great difficulty gaining the support of the majority of American people who do not fit that category. Indeed, in your proposal, you consciously and wisely designed a Dialog Council with a generational perspective in mind, including one-third of its members from my generation born after 1960. Why not use the same standard to allocate positions on the bipartisan panel, the group that actually would be devising the Social Security reform plan? As you know, the bipartisan panel's proposals stand to affect the lives of people in younger generations as much as, if not more than, the lives of today's older Americans.

Speaking of the Dialog Council, I must commend you not only on the creation of such a group, but the emphasis you place on the Internet as a channel for political discussion. Clearly, there is a role for young adults to play in the proposed Internet Advisory Board. We hope if it is created, Third Millennium will be called upon to offer its knowledge and leadership.

Finally, I should make the Ways the Means Committee aware that Third Millennium is already working to foster a national discussion about Social Security. In conjunction with three other organizations—the United States Student Association, the Foundation for Individual Responsibility, and Social Trust, and the 2030 Center—and with the generous support of Americans Discuss Social Security Project of the Pew Charitable Trust, we have just launched the Social Security Challenge. Starting in late-February, our groups began issuing a call to college and graduate students nationwide. We are saying the following: If you had $100,000 to spend to make Social Security a hot topic of conversation among college students nationwide, how would you spend the money? Tell us your plan in 1,000 words or less and submit a budget. The winning team of between two and four students will win two prizes: One, the ability to spend the $100,000 to implement their project; and two, each member of the team will win $10,000 toward college expenses.

We would ask that Members of this Committee inform their constituents about the Social Security Challenge. And I do have brochures with me today, so if you would like to have one, please ask. The deadline for entries is April 28. We have mailed a promotional brochure to the chairs of every economics and political science department in the country, as well as to key administrators at every college and university. We have also been aggressively promoting the Social Security Challenge via banner advertising on the world wide web, and directing viewers to the Web site: www.sschallenge.org, and also callers to the program's headquarters.

Mr. Chairman, we have a major task ahead of us. In the absence of an immediate crisis, reforming Social Security remains a

daunting task. But you and Members of your Committee should know that Third Millennium is in this for the long haul. We intend to stimulate public discussion about Social Security until the program is fixed and dignified retirements can be assured not only for today's seniors, but also for the people of my generation and those that follow.

Thank you.

[The prepared statement and attachment follow:]

Statement of Melissa Hieger, National Board Member, Third Millennium

Good morning, ladies and gentlemen. Thank you, Mr. Chairman, for including Third Millennium in this dialogue about Social Security, the largest program in the federal government. We greatly appreciate the fact that you have chosen to include voices from all generations in this critically important discussion today.

My name is Melissa Hieger, and I am a board member of New York-based Third Millennium, a national, non-partisan organization launched in 1993 by young adults offering solutions to long-term problems facing the United States. I am also a graduate student earning a Ph.D. in economics from Boston University, and my area of expertise is retirement policy. My faculty advisor is Dr. Lawrence Kotlikoff, the creator of "generational accounting" and a member of Third Millennium's board of advisors.

Today you asked me to address two issues: the merits of establishing a bipartisan panel to design long-range Social Security reform, and the best way to engage the American public in the process of reform. I will address these issues one at a time.

Regarding the proposed panel, it is fair to ask: Is it really necessary? After all, the 32-member Kerrey-Danforth Commission in 1994 effectively laid out the options for reform, and that panel's co-chairmen made reasonable recommendations that are still under consideration today. Then, 15 months ago, the President's 13-member Social Security Advisory Council issued a report that presented three divergent paths for Social Security. Clearly we know what our reform choices are.

After reading your proposal, Mr. Chairman, you have convinced me and my colleagues that your approach would help achieve Social Security reform. For example, we agree that members of the panel should be named by the Administration as well as by Congress, so that both branches have a stake in the outcome. You have wisely set the deadline at exactly 10 months hence, so the panel must move expeditiously. And you've designed the panel to be small, so that building support will likely be simpler. Clearly you seek to bring the process of Social Security reform to successful completion.

But I have one question: Have you considered modeling this new panel after the Base Closure Commission? As you'll recall, in that instance Members of Congress took an up or down vote on the Commission's full package of recommendations, rather than evaluating them through a series of Congressional committees that likely would have rendered them unacceptable. Isn't it possible that in the case of Social Security, an equally contentious political issue, the House Ways and Means Committee and the Senate Finance Committee would want to amend whatever the Bipartisan Panel proposes and, in the end, undo their fragile agreement? This is our main concern, since long-overdue Social Security reform has been delayed time and time again.

On another issue, the composition of this proposed Bipartisan Panel, I ask you, Mr. Chairman: please incorporate wording in your bill that mandates that two panel members, one from each party, be Americans born after 1960. If this panel is comprised exclusively of white males over the age of 50, it will have great difficulty gaining the support of the majority of the American people who do not fit that category.

Indeed, in your proposal you consciously and wisely designed the Dialogue Council with a generational perspective in mind, including one-third of its members from my generation, born after 1960. Why not use that same standard to allocate positions on the Bipartisan Panel, the group that actually would be devising the Social Security reform plan? As you know, the Bipartisan Panel's proposals stand to affect the lives of people in younger generations as much as, if not more than, the lives of today's older Americans.

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Starting in late February, our groups began issuing a call to college and graduate students nationwide. We are saying the following: "If you had $100,000 to spend to make Social Security a hot topic of conversation among college students nationwide, how would you spend the money?" Tell us your plan in 1,000 words or less, and submit a budget. The winning team of between two and four students will win two prizes: 1) the ability to spend the $100,000 to implement their project and 2) each member of the team will win $10,000 toward college expenses.

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Mr. Chairman, we have a major task ahead of us. In the absence of an immediate crisis, reforming Social Security remains a daunting task. But you and members of your Committee should know that Third Millennium is in this for the long haul. We intend to stimulate public discussion about Social Security until the program is fixed and dignified retirements can be assured not only for today's seniors, but also for the people of my generation and those that follow. Thank you.

Will $100,000 get America's campuses talking?

Add this to your homework.

Create a plan to get college students from all over the country talking about Social Security.

Your budget: $100,000.

(And we'll actually spend the money to implement the winning team's plan.)

Why?

Because people all over the country are talking about the future of Social Security. Will it exist when you're old enough to receive it? Will it be the same program that it is now?

The voice of young people is very important to this debate. It is you who will live with the consequences of these discussions.

What's in it for you?

We're offering your team of two-four students $10,000 each to come up with the best plan to get college students talking.

We know that is a lot of money. But leaving college students out of the discussion is much more expensive.

Application for Challenge 98

Your job is to create a plan. We want college students all over the country discussing Social Security. Your plan must demonstrate to college students that Social Security is an issue important to them now. Then, you must get them talking! The budget for your plan is $100,000. You can spend this money any way you want. The goal is to get as many college students as possible in as many different colleges across the country interested in talking about Social Security. They don't have to feel one way or the other. We are not looking for the right answer for what to do with Social Security. We're simply looking for a plan to get students talking about it.

Describe your plan in 1,000 words or less. Essays over this limit will not be considered. (We mean this!). You must also include a one-page budget that accounts for every expense that will arise in the implementation of your plan, such as personnel (your employees), phone bills, travel costs, equipment (computers, etc.), insurance, rent, promotion, and evaluation of your project. You may include a total of 2 charts, diagrams, tables or pictures with your essay.

If you are mailing your application, you must include a cover sheet with the title of your project, team members' names (a team must consist of between two and four members and one person must be designated team leader), each team member's address and phone number (both school and permanent), phone number where each team member can be reached during the summer of 1998, e-mail address, expected graduation date, college or university name, and the region number for your team members' schools; page 2 with your essay; and your detailed one-page budget.

HOW TO ENTER:

- You must be legal U.S. residents who are registered students attending a fully accredited 2- or 4-year college or university in the U.S. All team members must attend colleges or universities within the same region.
- If you have not received the complete official rules as an insert in this brochure, please visit our web site at **www.sschallenge.org** or call **1-800-401-3008** to read them before you submit your application.
- You may submit your application online at our web site or by mail to the address listed on the back.

TIMELINE:

Online entries are due by 5pm EST on April 28, 1998. Mail-in entries must be postmarked by April 28, 1998 and received by May 2, 1998.

- You will be notified of our choices for regional winner by early May of 1998.
- If you are selected, your team will then be asked to prepare a more detailed application over the summer of 1998.
- We will select the national team winner in October of 1998.
- The winning team will work with us to develop the plan further and prepare to execute it.
- From January through April of 1999, we will execute the winning project together.

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Chairman ARCHER. Thank you, Ms. Hieger.

Our last witness today representing the baby boomers, our own congressional baby boomer, the Speaker of the House of Representatives, Newt Gingrich. Mr. Speaker, we would be pleased to receive your testimony.

STATEMENT OF HON. NEWT GINGRICH, SPEAKER OF THE HOUSE OF REPRESENTATIVES, AND A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA

Mr. GINGRICH. Thank you, Chairman Archer.

Let me first of all thank you and Chairman Bunning for the work you have already done in establishing this base, and let me commend to any interested citizen that they look at the hearings Chairman Bunning has already had in Subcommittee on the variety of reforms occurring around the world. I also want to commend Chairman John Kasich of the Budget Committee for some very innovative ideas in trying to solve the problem with action this year. And I want to mention some of our colleagues: John Porter, Nick Smith, Mark Sanford, and Mark Neumann who have been particularly aggressive in trying to develop answers and solutions to stabilize Social Security and create a better future.

Although America's Social Security system is not currently in crisis, the signs are clear that we are rapidly approaching one. Early in the next millennium, the Social Security trust funds will begin to dwindle as wave after wave of baby boomers surge into retirement. Within 15 years, the system will begin to pay out more than it takes in. Unless we act soon, within roughly 30 years, the system will be bankrupt and the retirement security and happiness of millions of Americans will be placed in grave danger.

I think that's why President Clinton in the State of the Union and in other comments has called again and again for a bipartisan effort to create a dialog. I believe that's why on April 7, he is going to a bipartisan event in Kansas City. And so, I see what this Committee is doing today is a very bipartisan effort to work with the President in developing an approach to have the country educate itself and then help make wise decisions.

When you look at the facts about Social Security, it is little wonder that more young people believe in UFOs than that they will receive a Social Security check. The system is in trouble and the time to act is now.

We can and we will save Social Security. I want to repeat this. As the Speaker of the House of a team that reformed welfare; balanced the budget for the first time in 30 years; passed the tax cut we promised, which is $400 per child this year and $500 next year; saved Medicare without raising taxes by increasing choice for senior citizens, let me emphasize the positive—we can and we will save Social Security.

Today, I am proud to introduce the initial steps in the plan that will permanently save Social Security while increasing the amount of retirement income available for virtually every American. Most importantly, the plan I am about to outline will not take a penny from our current Social Security system. It protects and fulfills the

obligations of the U.S. Government and the American people to current and future retirees.

Let me emphasize this point: This plan will not touch the FICA tax; this plan will not touch the trust funds; this plan will not raise taxes on the American people; and this plan will not cut a single persons' Social Security benefits now or ever. We will guarantee every American, whether you are 17 or 70, that you will get every scheduled payment, including future cost of living increases, on time and in full from the current system.

Our goal should be the creation of a dramatically better, modern, personal Social Security system for the information age while protecting all the benefits in the current system. We can reach that goal in three stages.

Stage one involves the legislation this Committee is meeting to discuss today. I believe we must launch a national dialog on retirement security to help Americans understand the issues and the choices we face. We must bring together baby boomers with older and younger Americans, and we should link them via the Internet to local task forces in every congressional district to examine the range of reform ideas. Let me mention: The goal here is not necessarily to find the perfect solution, it is to engage all of the American people, so all of the American people believe they have access to the information and they have a right to participate in thinking through and discussing their economic future.

On January 5, I called for a commission to lead such a dialog, and I am very pleased that Chairman Archer has introduced legislation to advance that idea. I also would like to commend Rick White for all the outstanding work he has done in helping show us how to use the Internet as a tool to advance this dialog. And with Chairman Archer's help, I think this is the first commission ever designed with the Internet as an integral part of its involvement of the American people.

In stage two, we should lock in the surplus so it truly saves Social Security by using it to fund new, personal, market-based retirement accounts for 130 million Americans—those that pay the FICA tax. We must plant a flag in the ground that says, this surplus belongs to the American people and should be returned to the American people. Every time someone proposes spending this money on something else, they are spending our children's future. We know that if we don't lock in the surplus and guarantee it can't be used for other programs, it will be spent. The strongest force in the universe is the attraction between a politician and a pot of unspent money.

That is why I support the President's call to save every penny of the surplus to save Social Security. We can do so by using the surplus to fund these new, supplemental, personal retirement accounts for working Americans. Through these Social Security plus accounts, we can add to the existing Social Security system without taking any money from it. Under this plan, Social Security would be strengthened and preserved. It will be safe, intact, and secure for future retirees. We will use the opportunity presented by the surplus to create a huge new pool of private capital that will lower interest rates, strengthen economic growth, and increase the personal control of the baby boomers and their children over their own

savings. So even if a person made a terrible investment, or the stock market went into a dive, that person would always have Social Security to fall back on. There will be zero risk of ever falling below the benefit level of the Social Security system. The safety net would be strong and unbroken.

But this plan would also give every American the opportunity to rise above the status quo. In addition, these new Social Security plus accounts would painlessly create the framework for a new, modern, personal retirement system without putting any senior citizens or current benefits at risk. They would begin the transition to a better more effective system for our children and grandchildren without taking any money away from our parents and grandparents.

Best of all, these accounts would compliment ongoing Republican tax-cutting efforts. Creating Social Security plus accounts would be the equivalent of giving the American people a $671 billion tax cut over the next 10 years, plus hundreds of billions more in interest in investment returns.

Through this surplus bonus, we would simultaneously strengthen Social Security, cut taxes, harness the power of compound interest, and give Americans a choice of how best to plan for their retirement.

In stage three, after the Commission reports back next year, we will work with the President to implement the most effective long-term reforms to the Social Security Program. In his State of the Union, President Clinton said that he would "convene the leaders of Congress next year to craft historic bipartisan legislation to achieve a landmark for our generation: a Social Security system that is strong in the 21st century." Mr. President, we, as leaders of Congress, accept your invitation. We look forward to shaping bipartisan legislation that is based on the recommendations of the Commission and fits into the framework of personal retirement accounts we create this year. Working together, we can ensure that no American will have to worry about his or her financial security in retirement.

By contrast, there is one prominent Democrat proposal that also claims to save Social Security. And while Democrats have recognized the problem, and I think on a bipartisan basis deserve a lot of support, I particularly commend the President and Senator Moynihan for having said: There is a problem and we have to solve it. One solution depends on the false medicine of tax increases and benefit cuts. Under that proposal, a single 62-year-old retiree, with a $19,000 annual income, could face a tax increase of nearly $1,700 next year. A married couple the same age earning $27,000 could see their retirement income hacked by more than $2,000. That is totally unacceptable. By the way, the source for both of those is the Joint Tax Committee analysis of the proposal.

Now, I just want to suggest the opposite of what Chairman Archer said: that would launch generational warfare in its most bitter form. That would pit grandparents against grandchildren. And it is exactly wrong. We need a solution where the grandparents are safe and secure and know it; where the children are doing better and know it; and where the grandchildren have a chance to have a re-

tirement plan they trust and believe will be real and uses the power of compound interest to increase their retirement.

We must save Social Security, but we cannot do it by taxing older Americans into deeper poverty. We must enhance the current system, not eviscerate it. Over this upcoming recess, I urge every Member to return to their district and begin this important dialog. And the best way to begin this process is not by talking, but by listening. I urge every Member to ask your constituents what they think. And let me suggest just a few questions to start that conversation.

First, how important do you think it is for us to save Social Security? Second, do you think we should use the surplus to save Social Security? Third, would you like to have a personal investment account that you control for retirement? And finally, do you think you can invest your money more wisely than the government can invest your money?

This dialog must begin at the grassroots, around kitchen tables and living rooms across America. Through this dialog and this plan, we will protect every current and future retirement and start the transition for younger Americans toward a modern, personal, market-oriented retirement system.

Thank you for your time.

[The prepared statement follows:]

Statement of Hon. Newt Gingrich, Speaker of the House of Representatives, and a Representative in Congress from the State of Georgia

Although America's Social Security system is not currently in crisis, the signs are clear that we are rapidly approaching one. Early in the next millennium, the Social Security trust funds will begin to dwindle as wave after wave of baby boomers surges into retirement.

Within fifteen years, the system will begin to pay out more than it takes in. Unless we act soon, within roughly thirty years the system will be bankrupt, and the retirement security and happiness of millions of Americans will be placed in grave danger.

Little wonder that more young people believe they will see a UFO than a Social Security check when they retire. The system is in trouble, and the time to act is now.

We can—and we will—save Social Security.

Today I am proud to introduce the initial steps in a plan that will permanently save Social Security while increasing the amount of retirement income available for virtually every American.

Most importantly, the plan I am about to outline will not take a penny from our current Social Security system. It protects and fulfills all of the obligations of the United States government to current and future retirees.

Let me emphasize that point: This plan will *not* touch the FICA tax. This plan will *not* touch the trust funds. This plan will *not* raise taxes on the American people. And this plan will *not* cut a single person's Social Security benefits—now or ever.

We will guarantee every American—whether you're 17 or 70 that you will get every scheduled payment, including future cost-of-living increases, on-time and in-full from the current system.

Our goal should be the creation of a dramatically-better, modern, personal Social Security system for the Information Age while protecting all of the benefits in the current system.

We can reach that goal in three stages.

Stage One involves the legislation this committee is meeting to discuss today. I believe we must launch a national dialogue on retirement security to help Americans understand the issues and the choices we face. We must bring together baby boomers with older and younger Americans, and we should link them via the Internet to local task forces in every congressional district to examine the range of reform ideas.

On January 5th, I called for a commission to lead such a dialogue, and I'm very pleased that Chairman Archer has introduced legislation to advance that idea. I also

would like to commend Rick White for all of the outstanding work he has done in helping show us how to use the Internet as a tool to advance this dialogue.

Stage Two—We should lock in the surplus so it truly saves Social Security by using it to fund new, personal, market-based retirement accounts for 130 million Americans.

We must plant a flag in the ground that says this surplus belongs to the American people and should be returned to the American people. Every time someone proposes spending this money on something else, they're spending our children's future.

We know that if we don't lock in the surplus and guarantee it can't be used for other programs, it will be spent. The strongest force in the universe is the attraction between a politician and a pot of unspent money. That is why I support the President's call to use "every penny" of the surplus to save Social Security.

We can do so by using the surplus to fund these new supplemental personal retirement accounts for working Americans. Through these Social Security Plus accounts, we can add to the existing Social Security system without taking any money from it.

Under this plan, Social Security would be strengthened and preserved. It will be safe, intact, and secure for future retirees. We will use the opportunity presented by the surplus to create a huge new pool of private capital that will lower interest rates, strengthen economic growth, and increase the personal control the baby boomers and their children have over their savings.

So even if a person makes a terrible investment, or the stock market goes into a dive, that person will always have Social Security to fall back on. There would be a zero risk of ever falling below the benefit level of the Social Security system the safety net would be strong and unbroken. But this plan would also give every American the opportunity to rise above the status quo.

In addition, these new Social Security Plus accounts would painlessly create the framework for a new modern personal retirement system without putting any senior citizen or current benefits at risk. They would begin the transition to a better, more effective system for our children and grandchildren without taking any money away from our parents and grandparents.

Best of all, these accounts would complement ongoing Republican tax cutting efforts. Creating Social Security Plus accounts would be the equivalent of giving the American people a $671 billion tax cut over the next ten years—plus hundreds of billions more in interest and investment returns.

Through this surplus bonus, we would simultaneously strengthen Social Security, cut taxes, harness the power of compound interest, and give Americans a choice of how best to plan for their retirement.

Stage Three—After the Commission reports back next year, we will work with the President to implement the most effective long-term reforms to the Social Security program. In his State of the Union, President Clinton said that he would "convene the leaders of Congress [next year] to craft historic, bipartisan legislation to achieve a landmark for our generation—a Social Security system that is strong in the 21st century."

Mr. President, we—as leaders of Congress—accept your invitation.

We look forward to shaping bipartisan legislation that is based on the recommendations of the Commission and fits into the framework of personal retirement accounts we create this year. Working together, we can ensure that no American will have to worry about his or her financial security in retirement.

By contrast, there is a prominent Democrat proposal that also claims to save Social Security. While Democrats have also recognized the problem, their solution depends on the false medicine of tax increases and benefit cuts.

Under the leading Democrat proposal, a single 62-year-old retiree with a $19,000 annual income could face a tax increase of nearly $1,700. A married couple of the same age earning $27,000 could see their retirement income hacked by more than $2,000. That is totally unacceptable. *(source: Joint Tax Committee)*

We must save Social Security, but we cannot do it by taxing older Americans into deeper poverty. We must enhance the current system, not eviscerate it.

Over this upcoming recess, I urge every member to return to their district and begin this important dialogue. And the best way to begin this process is not by talking, but by listening.

I urge every member to ask your constituents what they think. And let me suggest a few questions to start that conversation.

First, how important do you think it is for us to save Social Security?

Second, do you think we should use the surplus to save Social Security?

Third, would you like to have a personal investment account that you control for retirement?

And finally, do you think you can invest your money more wisely than the government?

This dialogue must begin at the grassroots around kitchen tables and living rooms across America.

Through this dialogue and this plan, we will protect every current and future retiree, and start the transition for younger Americans toward a modern, personal, market-oriented retirement system.

Thank you for your time.

Chairman ARCHER. Thank you, Mr. Speaker.

Let me very briefly inquire of Senator Dole. With your experience over many, many years of serving in the Congress, and with your experience on the Social Security issue, which you mentioned in your comments, do you believe that it is possible within this body, both Senate and House, that this issue can stay above the temptation of individual Members to attempt to gain partisan political advantage if you simply turn the Congress on this issue without a driving force of a bipartisan nature, which is intergenerationally determined, such as the Commission that is being recommended in the legislation on which we're having a hearing today?

Senator DOLE. Well, as I said in my statement, I think it's only on rare occasions you would want a commission—maybe campaign finance reform, maybe Social Security; there may be another one or two out there, base closings.

But I must say, I was on the Social Security Subcommittee, the Chairman of the Finance Committee. We had a lot of partisan wrangles, even though people I think generally with well intention—we had different views. And I must say as a Republican, we suffered a great deal because of the politics of Social Security over the years. And we thought we were trying to fix it. We thought we were offering good legislation that would make the trust fund secure, and all these things.

I don't believe anything has changed that much. Obviously, I think there's still some partisanship in the Congress. I don't notice as much as I used to, because I'm not up here, but if I were here I'd probably notice it. But I read about it and I watch C-Span, and I see all the harmony, and I occasionally see disharmony. But I don't generally stay up that late.

So, having said that, I don't see how you do it. You're all friends here, Democrats and Republicans. You may have different views, but in the final analysis I don't see how you get it done. Now maybe if somebody can put together a package that everybody will rally around, but there's just too much involved.

And if you're a widow, and your only income is Social Security, and maybe Medicare, you're concerned about it. And if we start playing politics, in my view that person and millions of others are going to have nothing but uncertainty, and they're going to lose more confidence in those of you who have the present responsibility for making the system work.

Chairman ARCHER. Mr. Stark.

Mr. STARK. Thank you, Mr. Chairman.

A comment, and particularly on Senator Dole's last statement: I just returned from a meeting in Germany with the U.S. Government, Japanese Government, and the German Government, all dis-

cussing this same problem. The Germans and the Japanese have a far older population than we do, and the crux of 2 days was looking around the table in three languages, and looking, wondering, "who's going to pay for it?" And nobody wanted to pay for it. And they were looking around for 2 days for this magic bullet, and I suspect that's where we're going to end up.

Chairman Archer, in his minority views in the last Commission, was against any increase in taxes. The Speaker, I believe, had instructed some members of the Medicare Commission not to support increases in taxes.

So if that comes off the table, you certainly limit your options for reform—now the Speaker has suggested private pensions.

If you took 80 percent of the budget surplus, and distributed among 148 million qualified workers, you'd be giving them $4 a month to invest in a plan, running up to a magnificent $33 a month by the year 2004. That would barely accumulate over 30 years accumulate $4,000 at 8 percent, and I don't know that you can offer people this as an alternative for us doing the responsible thing for Social Security. Maybe you've got a better idea, but I don't think that sells.

Are we going to get more money in there?

Mr. GINGRICH. Would you yield for 1 minute?

Mr. STARK. Surely, I'd be happy to. It was your plan that I'm trying to outline.

Mr. GINGRICH. Again, I'm suggesting a general principle as a step. You'll notice I said there are three steps here. One is the Commission, so we get the whole country engaged in the dialog; the second is the principle that the surplus should go into a private personal account; and the third is, that we look at the future of Social Security within the context of those two steps. I'm not here today to say this is a panacea, but I want to make two observations that are startling.

The first is, the Congressional Budget Office has had to refigure the outyear debt in the last 15 months by $2 trillion. That is, 15 months ago they were projecting a debt over the next decade that is $2 trillion higher than they're currently projecting.

This year we were supposed to run a $229 billion deficit, which means we'd borrow from Melissa's generation $229 billion. Instead, the minimum surplus is $10 billion and our most accurate estimator, Mark Newman of Wisconsin, estimates it will be at least $40 billion, and the CBO will once again be wrong when the numbers come out.

If you take just the current, very low, very timid, Congressional Budget Office projection, it is about a $670 billion number over the next 10 years. That for the FICA taxpayers turns out to be about $3,500 to $4,000 in a savings account, at no cost to anybody. It simply means government can't spend the money in Washington.

If you have a tax-free buildup of that money, and you're a 20-year-old, you have in fact—a 20-year-old today, if that program were set up today, and you didn't extend the surpluses beyond 10 years; you only said there's a 10-year window, they would still have a significantly larger amount of money than they have today.

But let me go a step further. Marten Feldstein, who is fairly reputable, who was the chairman of the Council of Economic Advisors,

the record suggests that this program, if you deliberately work to have a surplus that allowed you to return the equivalent of 2 percent of FICA, that this program could ultimately basically provide a sufficiently large asset; that you would not only guarantee the stability of the system, but——

Mr. STARK. But Mr. Speaker——

Mr. GINGRICH. Yes?

Mr. STARK [continuing]. If we increase FICA by 2 percent the Social Security problem would be resolved?

Mr. GINGRICH. I didn't say that; I said something very different. I said the surplus.

Mr. STARK. I'm just saying, all we have to do is increase the Social Security tax 2 percent, 1 percent for you and 1 percent for the government, to resolve the problem.

Mr. GINGRICH. Can I just state my point? Mr. Stark, you just made my point about the difference in our two approaches.

I would control government spending to have a surplus large enough to equal 2 percent of FICA, and give people the money by not having it spent; you'd raise the taxes. I believe there's a non-tax increase approach, and the key's very simple.

The power of compound interest, if you are young enough, allows you to offset the demographics of an aging population. You give young people enough savings to have compound interest buildup without taxation, and they will be in a position to save the system without a tax increase. If we don't act in the next year or two, and don't have time for the compound interest, you are either by 2012 going to have to radically cut benefits or raise the FICA maybe as high as 18 percent.

Now I am opposed to a solution which has us raise the FICA tax to an 18-percent-per-person FICA for a program that my daughters may never see the money from. And I think it's much better for us to find a solution that locks in the surplus, returns it as a bonus, gives the American people the chance to invest that money, and gives them the chance to have that kind of compound interest work for them, rather than work against them.

Chairman ARCHER. The gentleman's time has expired.

Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman.

Chairman ARCHER. Yes.

I want to express appreciation to Senator Dole and Ms. Hieger, and to our distinguished Speaker, Mr. Gingrich, for their participation. And I don't know whether Ms. Hieger is a registered voter yet, but I am assuming that with this bipartisanship here that it's irrelevant whether you registered and whether you have cast votes for the other side. We're working in a joint effort to save the program that touches all American's welfare. One of the concerns I've had is that, relatively speaking, the rate of return under the Social Security Program is such a rip off in contrast to the return rate if you had invested your own money. How we make the transition into mandated investments into your own savings account as opposed to the current Social Security Program, is the question of the day.

I led a Trade Subcommittee trip down to Chile in 1995, and while there, we had an interesting opportunity to meet with their

former labor secretary who had privatized Social Security down there. Under the Chilean system, individuals were given options. In 1995 over 90 percent of Chileans had chosen the private alternative, and that was understandable, because the returns were so significantly better than under the existing program.

And I thought about it afterward, and it's just tragic that when the Social Security Program was first established, it wasn't established that way.

I think the same principle applies to our Medicare Program. Had it been set up as a medical savings account at its inception, we wouldn't be going through the crisis we'll be going through again in another decade with respect to Medicare.

But let me ask a question from a third millennium perspective, and that question is, you talk about having analyses being made by panels involving people who were born after 1960. You don't trust any of us older folks?

Ms. HIEGER. In my discussions with younger people, it just seems that there are very diverse views on solutions, and possible solutions, and in particular the investment option. And I think younger people tend to have more experience with 401(k) plans, they like the portability, and in general see that as a more realistic option than staying with the pay-as-you-go structure. We don't see that as being such a large risk as somebody from the older generations that maybe lived through the Great Depression.

Mr. CRANE. Well, let me simply comment, that as a parent of eight children, I'm infinitely more concerned about their welfare than I am about my own. I think there is perspective that can be brought into the whole discussion by grandparents; even folks that are current beneficiaries and recipients of Social Security benefits who are aware at least of the potential threat, not to their own benefits, but to yours and your children, too. I would hope you might soften your position in opposition to some of us older folks.

And one of the things I'm interested in, Bob, from your comments, and that is the differences between the people who were pessimistic about reform really working in 1983 in contrast to today.

Do you see any significant differences in the pessimism on the part of those folks who think this program isn't going to survive?

Senator DOLE. I don't see a great deal of change. And I might point out one thing; it has only been 15 years, but we never considered any personal investment possibilities. It shows how far its moved in just 15 years. It's going to happen one of these days. You can still protect those in the pipeline and let young people, like Melissa, give them opportunities, too.

But I think you go out to the average group of people, wherever you go—Kansas, Illinois, wherever, and they think it's going to be gone; it's not going to be there. And that's why I think it's very important. I think another exception for a commission would be Medicare, which you've already done.

When you have the Commission it shouldn't be all Members of Congress, because then you're right back in the same partisan problem. You need a few outsiders to not only referee, but to help bring some outside information, some outside wisdom to the prob-

lem, even though there's a great deal of expertise in this Committee and on the Senate Finance Committee.

Mr. CRANE. Well, again, I express my appreciation to all of you. Keep the faith, fight the good fight; we shall prevail. And I think we can solve this problem too.

Thank you.

Mr. BUNNING. Thank you.

Mr. Speaker, you say our goal should include the creation of a personal Social Security account and a system for the information age.

How do you see Social Security unfolding in an information age, and how do you answer the critics that say, in a personal savings account that you use the market forces, what happens if the market is negative? In other words, if we have the late sixties, early 1970 market as these accounts are starting to be formed?

Mr. GINGRICH. Let me start and point out, Mr. Bunning, I appreciate your question; that what I am suggesting today is a very timid, very cautious approach, which simply says, create the Social Security Plus accounts with the surplus. Keep the entire current system as a safety net. So if the market tomorrow morning crashed and we had a zeroed out, you would still have the current safety net. From that standpoint, it is a very low risk system.

Mr. BUNNING. Excuse me. You're not suggesting that those on retirement or those that have already secured Social Security and are on it, would then have a Plus account on top of that?

Mr. GINGRICH. They could have a Plus account if they were FICA taxpayers. But again——

Mr. BUNNING. Only FICA tax.

Mr. GINGRICH [continuing]. That's something for this Committee to look at, and I'd like the Committee to think it through. But I don't know why you'd want to discriminate against FICA taxpayers who are over 65, as long as they're paying FICA tax.

Mr. BUNNING. Oh, I certainly wouldn't want to discriminate against—

Mr. GINGRICH. Right. So seniors would have their exact current system. Those who were working would get a Social Security Plus account; everybody else who's working and paying FICA tax gets a Social Security Plus account.

But here is the other half of that answer. When I said an information age, virtually everybody in this room has credit cards. Virtually everybody in this room has used credit cards in foreign countries. Virtually everyone has seen a level of information handling that allows your credit card to be validated in real time while you're standing in a store overseas. You've then seen your credit card company capture all the data of all your purchases, even if you're in five different countries, organize them, and send them to your home address, along with a bill asking you to pay for them. Now that's the level of information handling outside the Federal Government, which is normal.

Today we have a 1935 paper-based, bureaucratic, Social Security information system, which cannot tell you what taxes you paid, cannot tell you what interest you earned, cannot tell you what's in your account, and can't track you as an individual. It is a highly obsolete, precomputer, preinformation age model.

Now I'm simply suggesting for the Commission to look at how you could design a personal account that followed you all your life, that handled all the information, that allowed you to earn 5, 6, or 7 percent a year. And I would suggest as a historian, that if you look at the historic long-term track record, the stock market average returns since 1920, including the Great Depression, are 7 percent a year. The third millennium generation is going to have a minus return; minus 1.19 is one example, but it's going to be a minus.

So the gap in compound interest: between paying into a system that has a negative return rate and paying into a system that has 7 percent average over time. So let's say you're unlucky. You end up with the generation where you only have 4 percent a year or more. At 4 percent a year or more, you're still compounding out at about 2½ times the amount of money you get out of the current system.

Now I'm not suggesting in any way that we take a big leap this year. This year we should only do two things: Establish Social Security Plus accounts which do not touch anything in the Social Security system, not a penny, doesn't change anything, it's all positive; it's all improvement; and second, have a commission to look at the current system and see whether or not over time we could make a transition.

And you've held the hearings, you know more than anybody else here I think, about how many different countries are understanding this and how—Great Britain for example, Sweden. This is not just a Chilean model. There are lots of countries that are saying exactly as Mr. Stark said, the current demographic pattern of the industrial world will not survive massive retirements with longevity without significant reform.

Mr. BUNNING. Ms. Hieger, I want to ask, To what do you attribute the fact that your generation, and my kids, and my grandkids, have such a lack of confidence that the Social Security system will be there for them?

Ms. HIEGER. Well, I think that Social Security has been a very successful program in the past, but we understand the demographic situation and we understand that most of us can expect, as the Speaker said, negative returns from Social Security. It's a bad deal.

We can expect upon retirement approximately 70 percent of our promised benefits. Many times we are told that we should be happy that we're getting that much, and that scares us.

The average Social Security benefit in 1998 is $765 a month. If we cut that by 30 percent, that leaves only $535 a month. That's not much for the many people in this country who exist only on Social Security. We need more.

And the last thing I think that creates the cynicism is that we have been looking for leadership on this issue, and we are just beginning to see it. This problem has been around, and we've known about it, and we don't see a lot of action, and we definitely want to see more of that to regain our confidence.

Mr. BUNNING. Thank you.

Senator Dole, thank you for your testimony.

Chairman ARCHER. Ms. Kennelly.

Ms. KENNELLY. Thank you, Mr. Chairman. Regarding the discussion with the Speaker and Mr. Stark, I'd like to say for the record that there is a difference between the plan Mr. Gingrich is talking about and the plan that I and the President have discussed. We think it's more important to draw down the Federal debt and to really reduce debt for the future, as represented by this young woman who's appearing before us, and I thank her very much.

I think this is a much more certain way of making sure we create new savings than to go immediately into small, private savings accounts. And I'd like to ask Ms. Hieger, Do you think it is better to keep the budget surplus to reduce the debt, rather than immediately getting into these individual accounts; that we really don't know how they will work out?

Ms. HIEGER. Last weekend I attended—sorry, the weekend before last, The Americans Discuss Social Security, 10-City Teleconference, and in general there was a lot of anger from the individuals participating in this; that the surpluses from Social Security are currently being used to finance the general budget. And I think people see that as money that belongs to Social Security, and they would like to see that set aside.

It is also very important to reduce the long-term debt in this country. We realize these are future taxes that we're going to have to pay. In general, we would like you to tackle both problems.

Ms. KENNELLY. Yes, and I'd just like to mention that what we're really doing is a bookkeeping issue. We're reducing the amount of the debt by having a surplus, and it's not that we are spending to reduce that surplus; it's making our debt look smaller than it really is.

But you do agree that we should hold back on this so-called surplus until we decide how we're going to save Social Security?

Ms. HIEGER. I would agree with that.

Ms. KENNELLY. How was the reception with that booklet? I read that booklet before the hearing, about the colleges competing to get involved in this dialog. What was the reception you found last weekend?

Ms. HIEGER. We've had over 30,000 hits on our website. Do you mean from the ADSS teleconference——

Ms. KENNELLY. Yes.

Ms. HIEGER [continuing]. Or from our Social Security challenge? They're two separate things.

Ms. KENNELLY. The challenge.

Ms. HIEGER. The challenge, we've had many hits on the website, as I said, and the deadline is not until April 28, and we are beginning to see proposals come in, but we expect we'll see many more in the next couple of weeks.

Ms. KENNELLY. Thank you. And thank you for your work toward this, because it is very important.

Senator Dole, I remember when you had the 1983 Social Security Reform Commission, and I remember when the Commission didn't complete its recommendations, and it had to be extended twice by President Reagan. Once was January 15, and then again January 20, 1983.

And then the Commission finally reached agreement, due to the yeoman's effort of you and others, and I well remember it, and I

thank you very much. And at that time the Social Security Trust Fund had about 6 months left in it.

We're trying to begin a dialog now. Mr. Bunning and I have had eight hearings. We've had a young woman who's gone out in the country, we've had the Pew Group being very, very active. We've had the AARP and the Concord Coalition being extremely active.

What do you think it's going to take to bring us together in a bipartisan fashion to resolve this, without getting into what happened when you had the Commission, when there was an immediate crisis situation.

Senator DOLE. Well, no doubt about it, we had a gun at our head in 1983. Had we not acted, payments would have been delayed in July, so we had about a 6-month period. And then it was difficult, and we had a 16-member Commission. I think there were 7 Members of Congress out of the 15, as I recall, and the vote was finally 12 to 3.

But you have 10 years I think before you have a real crisis. But it seems to me the one advantage of what the Chairman talks about is the fact this Committee is going to have the final jurisdiction, and I assume whoever's on the Commission will include Democrats and Republicans from this Committee and also from the Senate Finance Committee, which will be, I think, some considerable help to the other Members in both parties.

But I'm a little concerned about having so much time. Ten years is a long time; why vote on it now? Let's wait until the next election. Let's wait until 2000. Well, let's wait until 2004. And that's something we went through a number of times, and perhaps based on the experience of 1983 and the subsequent studies that have been made, and the commissions that have been appointed, this effort will be more helpful. I don't know for certain what will happen.

Ms. KENNELLY. Do you think we can resolve it without waiting for the crisis?

Senator DOLE. Pardon?

Ms. KENNELLY. Do you think we will be able to resolve it without waiting for the crisis, which often happens around here?

Senator DOLE. I hope so. I hope things have changed enough that you could do that. Certainly, there are people on this Committee who could sit down—Republicans, Democrats—and come up with a package I think would pass the House and pass the Senate. And I think the same is true on the Senate side. But there are some very—I'm only talking about process. I won't get into all the specifics of different plans, but I think it can be done.

Ms. KENNELLY. Thank you, Senator.

Chairman ARCHER. Mr. Houghton.

Mr. HOUGHTON. Thank you, Mr. Chairman.

Just one quick question of Senator Dole. But before I ask that question, I think it's a wonderful, timely issue that you bring up that we've got a problem. We've got the will to fix it. We've got creative financing that we can work with. And also we have this extraordinary surplus. I really appreciate what you're doing, Mr. Chairman, in bringing this to a fine point.

Senator, you've heard the proposal of Social Security Plus by Mr. Gingrich. Do you think that does the thing that you were alluding

to in terms of the final paragraph of your statement? You talk about personal responsibility and a variety of other things.

Does that get at the things which you're most concerned with?

Senator DOLE. Well, it may. Again, I don't know if I want to comment on different pieces of legislation; they're plenty of them around. I may have a little different view than Newt has. But I think the important thing is that they are taking a look at how we can have this intergenerational security for both younger people and the seniors, who are already eligible or will be eligible in the next 10, 15, 20 years.

I think there you make senior citizens nervous when you start talking about personal savings accounts. There's got to be a lot of education done, and maybe that's part—that's what the dialog group would do between now and next January, as I understand it; disseminate information. Let seniors know about the program. Let young people know about proposed programs. But I think it's a step in the right direction.

Mr. HOUGHTON. Thanks very much. Thank you, Mr. Chairman.

Chairman ARCHER. Mr. McCrery.

Mr. MCCRERY. Thank you, Mr. Chairman. Welcome, Senator Dole. It's nice to have you back with us.

Ms. Hieger—is that how you pronounce your name?

Ms. HIEGER. That's correct.

Mr. MCCRERY. OK, thanks.

If we were able to construct a plan for Social Security that would allow people in your generation to establish an individual investment account and would guarantee you at least 100 percent of the current Social Security benefit, and would likely allow you to receive more than the current Social Security benefit, would that be a plan you could sign on to?

Ms. HIEGER. I think we would definitely sign on to any plan that could do that.

Mr. MCCRERY. And let me go further, make it even better. If we could come up with a plan that would do those things, and would not involve any increase in your payroll taxes, you'd like that too?

Ms. HIEGER. I'd like to see that plan.

Mr. MCCRERY. Well, we're working on one. We're not quite there yet. But I think Mr. Chairman, what we have is a unique opportunity, a window in time, if you will, with the surplus that we are going to enjoy if all the projections are accurate for the next 10 years or so.

It gives us a unique opportunity, Mr. Chairman, to provide a transition from the current Social Security system, which is basically a pay as you go, dependent on payroll taxes from the current working generation, to a system which relies more on investment in the private sector and builds on the dynamics of that investment, compounded interest, all those things that the Speaker talked about.

And Mr. Chairman, contrary to our colleague, Ms. Kennelly, I think if we do nothing with the surplus but buy down the debt and in effect rely on government investment, rather than freeing that money for private investment, we are missing a huge opportunity. We ought to take advantage of this, not only for Ms. Hieger's sake,

but for my two children's sake, and for future generations of Americans.

I commend the Chairman, the Speaker, and others for not being afraid to think outside the box on this; look at how we can use the surplus in imaginative ways to get us to a system that Ms. Hieger can sign on to.

Thank you, Mr. Chairman.

Chairman ARCHER. Mr. Levin.

Mr. LEVIN. There's going to be a hopefully bipartisan dialog on April 7—that's in less than a week—sponsored by AARP and the Concord Coalition in Kansas City, and then they're going to be three more.

I'm hopeful that both parties will actively participate. I was going to ask the Speaker whether he might be there, and I hope some of you in the media will ask the Speaker if he's going to participate.

And I don't know, Mr. Chairman, if you're planning on participating in any of these fora. They're going to be four of them, in addition to those sponsored by the Pew Foundation. And then the expectation is, after these four bipartisan hearings in the next months and the Pew-sponsored dialogs, the President intends to have a full-fledged session in December to see if we can work out a bipartisan approach on Social Security.

And essentially what is being suggested here, is that we have a second mechanism put in place, that overlaps or competes with a process that has already begun. I'm afraid that can undermine the very hope that we can have a bipartisan approach here. I don't understand it. I guess a test will be the level of participation in the April 7 meeting and in these others.

I hope, Senator Dole, that you'll use your prestige to try to help make these meetings work. You have among us, from me personally, the highest respect. You describe the need for a commission in 1983. It was embroiled in political controversy for months. The system moved closer to insolvency and prospect for a bipartisan consensus seemed remote.

I don't know how that really fits exactly where we are today, and it would seem to me the prudent thing to do is to see in these next months whether the dialog can be meaningful, and then after the election whether a White House bipartisan session fails or not. If it fails, then we go to the next step.

So, I don't know, Senator Dole, if you want to comment on that. You know from our personal relationship my respect for you. I'm just afraid setting up competing mechanisms sends the very opposite message of bipartisanship. I don't see how else people read this.

Senator DOLE. I think the one big difference of course is that Congress has no responsibility in the other—Concord and AARP. And as I recall back in the early eighties, when we knew we were going to have to face up to this issue sooner or later. We had Interfund—and we did everything we could to avoid facing up to it, and many people thought nothing's going to happen until the Year 2000. We had a number of groups then, and advisory councils and commissions were trying to be helpful, and they were helpful to some extent. But it wasn't until we got into this crisis stage that

we knew if we didn't produce, it might be another extension of the Commission. And I think both parties then understood it would be a very difficult thing to go back home and say, well, we couldn't solve Social Security, so your July 1 check will arrive July 10, or whatever.

So I think it's a different time, but hopefully better bipartisan spirit prevails now.

Mr. LEVIN. So, the question is, Why not see if this effort can't work the next 7 or 8 months. The members of Concord are being invited to participate on a bipartisan basis in these AARP-Concord coalition sessions. It's up to us to make those work.

Senator DOLE. Well, I'll let the Committee make that judgment.

Mr. LEVIN. OK, thank you.

Senator DOLE. Thank you, Senator.

Chairman ARCHER. Mr. Ramstad.

Mr. RAMSTAD. Thank you, Mr. Chairman. Thank you for initiating this important national dialog on the crucial issue of preserving Social Security. Nothing's more important to the American people, as it's been pointed out here today. And I share some of the concerns that have been raised.

If ever a situation called for a bipartisan, pragmatic approach, it's the current situation involving the future of Social Security. I think we started on a good foot here today, and certainly appreciate the three witnesses here, all three very distinguished, very appropriate, representing the three generations.

As the Speaker said, "I support the President's proposal to save every penny of the surplus to preserve Social Security," and that certainly indicates a desire to work in a bipartisan, pragmatic way.

I was intrigued, Ms. Hieger, by your proposal to put Social Security reform on a fast track, if you will. That is, we give fast track authority to Social Security reform. We take the consensus recommendation of this bipartisan commission, have an up or down vote, and depoliticize the issue as we did with respect to the Base Closure Commission.

Senator Dole, what's your opinion of that recommendation by Ms. Hieger?

Senator DOLE. Well, I think on the surface, with all due respect, it might appear to be a remedy, but I don't think it will work. You couldn't extend the Base Closure Commission the last time around—you, the Congress. There's no enforcing mechanism enforcing the bill, that's one thing that you know immediately. But I'm not certain I would pursue that policy.

I think if the Commission or the Dialogue Council, whatever dialog it may have, does its work well and has outstanding members on the Commission, and keep it out of politics as much as you can, it's going to have so much momentum when it comes into Congress, you're going to have a lot of bipartisan support. And if you don't have bipartisan support, it's not going to go anywhere, and you're going to wait, as I said, you've got 1 year to go or 6 months to go, or don't get the checks out on time, and then something will happen.

I think some of the surplus, we ought to pay off the debt. We're paying about a $1 billion a day in interest, and that also affects the younger generation.

Mr. RAMSTAD. Ms. Hieger, did you want to comment further on that idea?

Ms. HIEGER. I think our idea that we model it after the Base Closure Commission was just to expedite the entire process. One thing that this bill does have in it that we do like, that if the Commission does come about there's a 10-month deadline, and we feel that that's very quick, but we know that these things can get extended.

Mr. RAMSTAD. Well, I have already begun this dialog back home by listening to my constituents. And the American people are smarter than many politicians give them credit. They understand that if we don't make some significant reform to Social Security, the trust fund will be insolvent by the year 2029. They understand that when the first of my generation, the Speaker's generation, the so-called baby boomers, start collecting Social Security in another 10 years, that more people are going to be collecting than paying in through FICA taxes.

The American people are going to hold us accountable and responsible whether or not we have an up or down vote, or we bring it into the legislative process, in the normal course of the process. So, I appreciate again the input from the three witnesses today, and would yield back the balance of my time. I look forward to working with you in the future.

Chairman ARCHER. Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman, and I commend the Chairman for calling this hearing today. I think it's very important that we begin this public first step in the Congress to debating the important issues surrounding the continuation and the protection of Social Security. I, as Mr. Ramstad has done, have started this debate in my district and have held several townhall meetings on it. And, in fact, after joining Mr. Crane on his trip to Chile, did invite and was lucky enough to secure José Piñera, the former labor minister, brought him to Seattle. And we were able to put him in a situation with reporters and with young people who are part of my youth congress, and with other members of our community to talk about Chile's remarkable success. And so many of us are learning about the Social Security issue with that as a premise, and I think it's a very exciting plan.

What I have discovered, Mr. Chairman, is that it may be very good to start a national dialog but there are some first steps that have to be taken and we must assure, first of all, that all the participants in this dialog are informed and in a position to have a meaningful debate through information. So I just want to bring to your attention the fact that today I introduced the Social Security Sunshine Act which I think will contribute to a very strong, genuine, and informed dialog about Social Security.

As we look at the ways we can personalize and modernize the current system, we've got to include those who are most affected by the program: the current beneficiaries. And so the legislation I'm proposing will supplement the Chairman's legislation by helping Americans to understand the problem that they system faces, and it will help to design a long-range program to modernize Social Security.

The legislation, the Sunshine Act, is much like a pilot program that I introduced into law in the 104th Congress. Two experiments

are being conducted right now on groups of 250 people, and the results and analysis of that experimental program will be presented by the Commissioner, and the survey responses that we receive back from those folks will come to Congress very soon.

The point of it is to assist people, and seniors in particular, to better understand their contributions and the benefits under the Social Security system. What I've discovered through townhall meetings, in talking with seniors in my district, is that it's very ironic that other retirement benefit programs like mutual funds or IRAs do provide this sort of information in writing on a quarterly basis, and many provide access by 24-hour-a-day telephone lines.

We will request this information be given annually to people who are eligible for Social Security: Number one, the total wages and self-employment income the individual has earned; number two, the total contributions of the employer, the employee, and self-employment from wages; number three, the total amount paid to the individual as benefits; number four, an explanation of this statement in terms that are easy to understand.

So, by bringing this to your attention today, Mr. Chairman, I would like to request that as the Committee moves forward with consideration of your bill, you consider inclusion of the Social Security Sunshine Act into your base bill.

Thank you, Mr. Chairman.

Chairman ARCHER. Thank you, Ms. Dunn. Mr. McNulty. Is he here?

Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman. I'll be very brief. I just want to thank the two panelists who appeared for the presentation. Ms. Hieger, as a father of four, I hear your echoes at home quite often, too, that my children are very frustrated with the fact that we take money out of their paychecks and bring it to Washington for a program that they're very doubtful about. They feel if they had those funds, they could invest them themselves. Of course, I often wonder if they would have the discipline to do that, and that's one of the reasons we have such a program.

But it is a program that has to be addressed. We want to ensure that our seniors today, and those of us who are going into the system in the very near future, will receive our benefits. I think that if we put in place a program that will allow the compounded interest to be accrued to your account, you will be far ahead when you reach the age of retirement.

I would hope we would be able to put together a program to enhance those benefits to a point, for your age, that would also allow us to reduce the payroll tax on you as time goes, so that you have more funds to direct in your way rather than through our way.

Thanks again for coming. Senator Dole, it's always a pleasure to be in your company.

Thank you, Mr. Chairman.

Chairman ARCHER. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman. Actually, before I ask any questions, if I could just add a few comments with regard to Chile.

Everyone seems to focus on the example of Chile and making a comparison with the United States. I think we should not forget

that 10 or 15 years ago, this was a dictatorship and an authoritarian government that provided few rights to its workers, let alone benefits including private pension opportunities. And chances are that if there were pension plans there in Chile for some of its workers, they were either not solvent or not funded for those who reached retirement age.

We should also remember that the demographics of Chile are much different from the demographics of this country. They have a much younger population that has not had this social contract with Social Security as we have had here. We have a baby boomer generation that is getting very close to retirement age which must be addressed. Chile does not have that situation, where it must deal with a large retirement population.

If I could ask—and it's Hieger, is that correct?

Ms. HIEGER. That's correct.

Mr. BECERRA. A quick question for you. You mentioned, and I read with some humor part of your testimony, where you mention in regard to your discussion of the Dialog Council, the overseeing body for this legislation, that, if I'm quoting correctly, it says, "If this panel is comprised exclusively of white males over the age of 50, it will have great difficulty gaining the support of the majority of the American people who do not fit this category."

Would you urge that the Dialog Council be as reflective as possible of the American people that you mention?

Ms. HIEGER. Well, I believe the way that the Dialog Council is set up is that is reflective of that. It's the expert panel, the bipartisan panel, that would come up with the actual reform, that only mandates that employees be represented and employers be represented by one member each. And we want that to have this intergenerational diversity as well.

Mr. BECERRA. What about some of the other demographics of the country, for example, male, female: the majority of this country is female. Too often, as you mention, white male over 50, we don't find in these bodies that get to make decisions that we have a representative sample of the population, whether female or in the case of ethnic or racial minorities. Is that something that would be important to have in any body that makes decisions that affect all of America?

Ms. HIEGER. I think it's something that should be considered. I think what you're saying is accurate. These groups don't tend to be represented on groups like this.

Mr. BECERRA. And I'm also disappointed the Speaker is not here, but perhaps I could ask both Senator Dole and you, Ms. Hieger, this question: We are right now in the process today of debating legislation on the floor of the House that deals with authorizing moneys for all of our transportation projects nationwide, whether it's a highway or a mass transit system on rail, or it's busses. That proposal, it's H.R. 2400, proposes to spend about $218 billion over the next 5 or 6 years for transportation projects. That's about $26 billion over what the balanced budget deal of last year said we should provide for that type of spending, highway and mass transit spending. So it's above the cap set by the balanced budget deal.

We know we've been told there will be a budget surplus of about $8 or 9 billion for this year. Would you recommend that Members

of Congress support legislation that would overspend by $26 billion in the area of transportation rather than, as the Speaker had mentioned, and others had mentioned, we preserve that budget surplus for purposes of Social Security?

Ms. HIEGER. I would rather not comment on that legislation, I'm not familiar enough with it. But I do think one of the things that we worry about in reforming Social Security is that we don't come up with a plan that gives every district in the country something so that we end up with a plan that doesn't fix the system. We have to be very careful about that, and get a plan that is fair to everyone and is cost effective.

Mr. BECERRA. Senator, I don't know if you wish to comment on that question.

Senator DOLE. No, I think I'll limit my comments to the process here. I'd get into a debate with all my colleagues, but it's a good question. [Laughter.]

Mr. BECERRA. One last question. The legislation creates these councils and commissions, but it doesn't require that they live under the standards that most public bodies would live under which require full disclosure and openness. Would you recommend that whatever panels are created, that they live under the same rules that require openness and disclosure, that we currently have for most bodies that provide public input?

Senator DOLE. I would.

Mr. BECERRA. I'm sorry, Senator, I don't think your comments were captured by the mike.

Senator DOLE. I said I would. I don't know what—I read the bill, but I don't know what disclosure you're talking about, but——

Mr. BECERRA. The Federal Advisory Committee Act requires that meetings be open to the public, and the stated purpose of the council in this legislation is to encourage the American public in understanding the current Social Security Programs and to generate comments——

Senator DOLE. I think you need to be a little careful there because I can recall back in 1983 when we got down to the nitty gritty, and we had everyone else in the room, we never would have gotten it done. I think that's an exception, obviously, if you get into the second phase as I understand H.R. 3546 does.

Mr. BECERRA. Thank you.

Chairman ARCHER. The gentleman's time has expired.

Mr. Portman.

I would like very much to release this panel when we go to vote so that they don't have to stick around, and I hope that will be acceptable to the Members of the Committee, but we will return after the vote. And the Chair would announce also that I would encourage Members to get a bite of lunch, and we'll come back here at 12:15 with the next panel, after Mr. Portman completes his inquiry.

Mr. PORTMAN. Thank you, Mr. Chairman. We're down to the hard core now, and not much time left. I want to thank you both for being here and for the Speaker. I think this is very exciting. This is really the next step in the process. I'm on the Social Security Subcommittee, and we've heard from Third Millennium and a

lot of other good outside groups, as well as from Members of Congress.

This takes it to the Full Committee level, and now we have a specific proposal for a process to actually come up with a bipartisan and fair solution to, as Senator Dole said earlier, one of the most pressing problems in our Nation. One that you indicated, of your long and distinguished career, you take great pride in working on, from your 1983 experience. I've got a couple of specific questions, but let me also say, in response to Sandy Levin's question, and Mr. Levin is not here now, there are a lot of groups out there who are trying to encourage dialog on this. I have in my district next month, what I think is going to be a very important exercise—it's called an "Exercise in Hard Choices," and the Third Millennium is involved in it, as is AARP, as is the Concord Coalition, and a number of other groups. I understand that they're having 10 town meetings around the country, and I am participating.

I encourage other Members to do that. I think most of them are, as we've heard today. And I think, the more the merrier. Let's encourage all this. But it's different than the process that Senator Dole talked about in 1983 which is actually having Members of Congress involved and drafting legislation.

I just went through this process with the IRS Commission, as you know, Senator Dole, and in that instance we had 17 Commissioners, 4 of whom were Members of Congress, and we often said that was good because we had real world experience and not just politicians. But on the other hand, it was helpful, I think, to have the four Members of Congress to be able to push the process through.

We actually passed legislation recommended by the Commission in the House within 3 or 4 months. It's now in the Senate and probably will be enacted into law within the next month or so. So my question to you is, having looked at the Dialog Council and the bipartisan panel, and the legislation that's proposed, it would imply, perhaps, that there might not be Members of Congress. I think it would be possible on the bipartisan panel to have some Members of Congress, although it's not stated. Do you think it's important to have some Members of Congress involved in the process?

Senator DOLE. No doubt about it. That's the difference between this and all the other groups that have been mentioned here. You've got Members of Congress who are going to be responsible to their colleagues on both sides of the aisle, there are going to be Members of the Committees of jurisdiction. I think it's very important.

Mr. PORTMAN. OK. Ms. Hieger, do you have any thoughts on that, this would be in regard to the bipartisan panel, which I think is limited under the legislation to eight members. I know you earlier indicated you had seen the draft of legislation and that you would support the general concept. Do you think there should be Members represented on that panel?

Ms. HIEGER. Yes, I do. I think that holds the Members accountable and it gets Congress involved in the reform process, and I think that's very important at this stage.

Mr. PORTMAN. OK, thank you. The other quick question I would have is with regard to Ms. Hieger's suggestion that we follow the

base closure model where it's an up or down vote, which worked well with regard to base closure, in my view, and my question is whether that would apply to this situation. I'm not sure it would, but I wonder, Senator Dole, given your experience in 1983, if you would have some thoughts on that.

Senator DOLE. I think I'd want to think about that very carefully, but it just seemed to me, based on my experience, there are probably—when you cast votes on Medicare, Social Security, or pay raises, they're about the most sensitive votes you can cast around here, and that's why I think this bipartisan effort by the Chairman and others is off on the right foot. But I'm not certain I would go as far as Melissa does on the base closing. It might work there, it might work with certain other things that I've recommended over the years, but I'm not certain about Social Security.

Mr. PORTMAN. You think having the Ways and Means Committee and the Finance Committee and the House and Senate more involved might be helpful to come up with a solution?

Senator DOLE. They have to be involved. It would be very helpful. It doesn't mean you're going to have success. It may not work. You may have to go back and extend it again. But it seems to me it has a greater possibility of working now than it did in 1983.

Mr. PORTMAN. Well, again, thanks very much for the input. And, again, I think this is an exciting development, and we're moving forward. I appreciate your input and look forward to continuing to work with both of you.

Thank you, Mr. Chairman.

Chairman ARCHER. Ms. Thurman is recognized for inquiry. At the conclusion of her inquiry, the Committee will stand in recess until 12:20, for the next panel.

Ms. THURMAN. Mr. Chairman, I appreciate that and I am particularly pleased to have both of you here. Senator, let me commend you for the prior work you did on the Commission.

I want to make a statement here, very briefly. In the district that I represent, I have the second oldest population in the State of Florida, and the second poorest district, so you can see the makeup and many of these live month to month on their Social Security.

And just a statement that I know is going to be made in the next, or one of the next panels, by AARP, that says, Social Security faces a long-term challenge but is not a crisis. I think to start this debate in this country, we should not put fear into people, but we should let them understand that we are looking at a time of 2029, potentially. And even in that, we're looking at the fact that incoming revenue, at this point, will finance three out of four of our benefit dollars.

But I do think this dialog has to take place. I think we've been given an opportunity because we have been given long term. But I do not want to see this debate turn into somebody being scared or to think about people there today are worried that tomorrow that safety net might not be available to them.

And I would say, also, the reason I left is because I was talking to the chancellor of my university system in Florida. I also have the University of Florida. I'm going to make sure they get this pamphlet, and see if we can't help you get some ideas for some of these things.

Senator DOLE. I agree with your statement, we shouldn't frighten people. We have time now to do this in a deliberate way and get it done, hopefully in a bipartisan way.

Thank you.

Ms. THURMAN. And I thank you both.

[Recess.]

Chairman SHAW [presiding]. We're going to go ahead and start the hearing. The Chairman will be back shortly. For our next panel, we've got Jim Kolbe, a Member from Arizona. He'll be joined by Jerry Nadler, a Member from New York, and Earl Pomeroy, a Member from North Dakota.

Mr. Kolbe is recognized. We, of course, have your full statement, as you're well aware, which will be made part of the record. We invite you to summarize in any way you see fit.

STATEMENT OF HON. JIM KOLBE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA; AND COCHAIR, HOUSE PUBLIC PENSION REFORM CAUCUS

Mr. KOLBE. Thank you, Mr. Chairman, and, yes, I will summarize my statement since the full statement is in the record. I want to thank you, Chairman Archer, and the other Members of this Committee, for having this very important hearing, and also for the work that several Members of the Committee are doing on the Social Security front.

There's no doubt that Social Security has been, and continues to be, one of America's most successful social programs. I think we look to that as the principle reason that poverty among the elderly has declined dramatically. However, it's time to face the underlying challenge, the fiscal challenge to Social Security. The United States, like a lot of other nations, is about to embark on an unprecedented demographic transformation which is going to place a really heavy burden on the Federal Government to pay Social Security benefits.

Looking at this 3 years ago, Charlie Stenholm and I cofounded the House Public Pension Reform Caucus. Together, with now more than 70 other Members, almost equally split between both parties, we spent the last 3 years researching, discussing, examining problems that plague the Social Security Program, and looking at various options for reform of it. We know, as anybody in this body knows, that bipartisanship is the only path that's going to lead to a resolution of the Social Security challenges that are before us.

I'm here today to talk about an idea of using a bipartisan panel or commission to develop a Social Security reform proposal. Before I comment on the desirability of a commission to formulate a Social Security reform proposal, let me briefly highlight some of the work that has already been done in the area of Social Security.

The President's participation in Social Security reform debate in his State of the Union announcement has given the issue a very high, national profile, but it's certainly not a new one. We didn't just figure out in 1998 that baby boomers are going to start to retire in the year 2012.

A lot of Members of Congress, Democrats and Republicans alike, have helped to lay the groundwork for reform. They've begun the discussion with the American people. They've made it possible for

the President and other Members of Congress to discuss what has been always called, affectionately, the third rail of politics.

There's a lot of different information in my statement. I have a list of the various commissions that have worked in the past on the Social Security issue, but let just take a moment to highlight a couple of those and the key things they have done. First there was, in 1994, the President's Bipartisan Commission on Entitlement and Tax Reform, cochaired by Senators Bob Kerry and John Danforth. And it brought to light, certainly made the public aware, and I think Members of Congress aware for the first time, of the long-range, the alarming long-range budget impact of entitlement programs as they are currently designed under law.

Then in 1994 to 1996, we have the Advisory Council on Social Security. It broke ground in a number of ways, with the completion of their package. It dealt not only with the long-term financing of the program, but with equity and adequacy of rates of return between generations. Second, the council included Social Security reform, three reform proposals, rather than one. Some criticized it for not proposing one unified reform proposal, but I think it made a major step forward by being the first to talk about using the marketplace to help solve some of the problems, and creating the national dialog. Even though they didn't come, as I said, to one uniform proposal, all three of the proposals they had, each utilizes the private market in some way to help ensure the long-term solvency of the program, provide a more equitable rate of return across generations.

So the groundwork is being laid. The public is ready, the Congress, I think, the public is ready to get—go forward with this.

Last, we have the work of the Center for Strategic and International Studies National Commission on Retirement Policy. The NCRP is a bipartisan, bicameral, public-private sector Commission, cochaired by my self, Congressman Stenholm, Senators Judd Gregg and John Breaux. It's a Commission that is special and includes representation from both the public and private sectors, including such places as IBM, Fidelity, Paine-Webber, Exxon, the World Bank, the Urban Institute, and the Third Millennium. We've had a lot of hearings, and we expect to have a comprehensive recommendation for reforms in May 1998.

Why do I mention all of these Commissions? It's not to suggest that the bipartisan panel that the Speaker spoke about earlier today doesn't have merit. I strongly believe there is a need to develop a mechanism for Members of Congress to join together to develop comprehensive reform legislation. But the key word in this statement is Congress. We don't need another expert, external commission operating outside of the realities of the legislative process, and that's why Congressman Stenholm and I have introduced legislation which would create a supercommittee.

It would establish the process for elected Representatives in the Congress to review all of these reform proposals, develop a consensus that can be enacted into law. It's important that the supercommittee is like a commission in that it will develop a bipartisan, bicameral Social Security reform proposal. If we're going to create another commission, we ought not to begin at ground zero. The expert groups of the past years have diagnosed the problems, they've

offered solutions. We need to look at these options and continue to move forward. There are a lot of other grassroots programs that are out there.

And my time is up, Mr. Chairman, and I won't go into those. But I think it's worth noting there is a tremendous effort being spent at the grassroots level, just let me mention one. The Pew Charitable Trust is spending $12.5 million this year to educate the American public on the problem of Social Security. That's a good deal of money that can be spent in this area.

I think we have the will, I think we have the tools to move ahead with Social Security reform. I don't think we should delay it. I hope we will do so. Saving Social Security first should not be rhetoric; it has to be our plan of action, and we should put that plan into place now.

Thank you, Mr. Chairman.

[The prepared statement and attachments follow:]

Statement of Hon. Jim Kolbe, a Representative in Congress from the State of Arizona; and Cochair, House Public Pension Reform Caucus

Mr. Chairman, and members of the Committee, I am pleased to be here this morning to discuss the very important issue of Social Security reform.

DEMOGRAPHIC REALITIES:

It's time to face the facts underlying Social Security's fiscal challenge. The United States, like so many other nations, is about to embark on an unprecedented demographic transformation. Social Security beneficiaries are destined to grow five times faster than workers. As Baby Boomers begin to retire in 2010, this country will have a greater proportion of elderly citizens than it ever has in the past.

Exacerbating the situation is the fact we are now living a great deal longer than our grandparents. The framers of the Social Security system designed it with contemporary life spans in mind. When created in 1935, 65 was the benchmark retirement age. However, the average life expectancy of a child born in that year was only 64. Today, men and women are living well into their late 70s and early 80s.

We must be certain that we do not take our eye off the end goal of short-term gains. Social Security is one of America's most successful social programs. It has been a principal reason that elderly poverty has declined dramatically. The Social Security program is credited with reducing the proportion of senior households with incomes at or below poverty level to 13 percent.

Social Security deserves to be saved. The data and statistics generated both in the private sector and the Administration show that the program is headed toward bankruptcy. Knowing the facts is the only way to cut through the half-truths and distortions that stifle change. The Social Security and Medicare Board of Trustees reported that the Social Security trust fund will be bankrupt in the year 2029. And, even more alarming, in 2012 the government will begin paying out more in benefits than is collected in payroll taxes.

In 2012, Members of Congress will have to begin to make the hard choices in order to continue paying retirees' benefits. Some of the hard choices will be to increase workers' payroll taxes, decrease retirees' benefits, or force deeper cuts in discretionary spending on other federal programs including, but not limited to, defense, medical research, park maintenance, and education in order to redeem the Treasury bonds held by the Social Security Trust Fund.

But, we do not have to wait until 2012! Rather, we can be bold and proactive and look for ways to reform Social Security today. Currently, we have a strong economy, the Social Security trust fund is in surplus, and the American people understand that the program will begin to experience problems in the very near future.

A poll conducted by the Washington Post and ABC News found that 88 percent of Americans polled believe that Social Security stability should be a major goal of the government. Social Security stability topped the agenda for Americans nudging the fight against crime and drugs into the 2nd priority slot.

PUBLIC PENSION REFORM CAUCUS:

If we do nothing now we will leave the hard work for future generations to sort out. Due to the many changes in Social Security benefits since its inception and the demographic realities that face our country, today and tomorrow's workers will pay for our inability to act today. We can do something now.

For the past three years, as co-chair of the House Public Pension Reform Caucus, I have worked with my Democratic co-chair, Congressman Stenholm, and the 70 other Public Pension Reform Caucus members to discuss, research, and examine the problems plaguing the Social Security program and the various options for reform. The interesting fact about the Public Pension Reform Caucus is that membership is divided evenly amongst Democrats and Republicans and includes representation from all over the political spectrum within both parties. We recognize that bi-partisanship is the only path that will lead us to resolution of the Social Security challenges will face.

I welcome the President's participation in the Social Security reform debate and am pleased that his State of the Union announcement has given this issue a national profile. However, I would like to congratulate all the members of Congress who have been a part of this debate for many years. Members that have had the courage to discuss this issue at home with their constituents; and made it possible for the President and other members of Congress to discuss the third rail of politics. These leaders include: Senators Bob Kerrey, Patrick Moynihan, Judd Gregg and John Breaux, Congressmen John Porter, Mark Sanford, Tom Barrett, Nick Smith, my PPRC co-chair Charlie Stenholm, and all 70 PPRC members.

A number of ideas have been developed on how best to proceed with the Social Security reform discussion. Some have advocated saving budget surpluses for Social Security: thus, creating yet another trust fund. Others advocate the creation of a Commission or Bi-partisan panel—the focus of today's hearing. I believe the Kolbe/Stenholm Super Committee legislation is the route we should take.

COMMISSIONS:

It is important to note that a lot of work has already been done to help set the stage for Social Security reform. The legislative process is moving in the direction of reform. Many of the previously mentioned members of Congress have already introduced comprehensive Social Security reform legislation. For the review of the Committee, attached is a complete list of these Social Security reform bills—*Attachment A: Social Security Reform Legislation*.

Additionally, a number of past commissions have also begun to set the stage for Social Security reform. These commissions have explored the long-range budget impact of entitlement programs, the financial solvency of the Social Security trust fund, the equity and adequacy of Social Security benefits across generations, and have developed various Social Security reform solutions. Attached is a brief listing of the past commissions that have worked on the Social Security issue—*Attachment B: Social Security Reform Policy Commissions*.

Bi-partisan Commission on Entitlement and Tax Reform:

The President's 1994 Bi-partisan Commission on Entitlement and Tax Reform, co-chaired by Senators Bob Kerrey and John Danforth, brought to light the alarming long-range budget impact of entitlement programs as designed under current law.

The Commission found that the long-term entitlement problems hinge on the impending retirement of the 76 million Baby Boomers beginning around 2010. The retirement of the baby boom population will place an enormous strain on the federal government's ability to pay 100% of retirees benefits. Currently, the Social Security program accounts for nearly 22% of federal expenditures. In 2010, when the Baby Boom generation begins to retire the cost of the Social Security program is projected to balloon enormously.

Advisory Council on Social Security:

While the Bi-partisan Commission on Entitlement and Tax Reform was defining the impact of the baby boom generation's retirement on the federal government, the President's 1994–1996 Advisory Council on Social Security was examining the long-range financial status of the Social Security program, and making reform recommendations which took into consideration equity and adequacy of benefits between generations.

The Advisory Council broke ground in a number of ways with completion of their package. First, the Council dealt with not only the long-term financing of the program but the equity and adequacy of rates of return between generations. Second, the Council included three Social Security reform proposals rather than one. Some

criticized the Advisory Council for not proposing one unified reform proposal; however, I was pleased with the package since it took a meaningful first step to stimulate a national dialogue on the issue of Social Security.

Finally, it is important to note that although the Commission was unable to issue a unified reform proposal the one common element in all three proposals is that each plan utilizes the private market to help ensure the long-term solvency of the program and provide a more equitable rate of return across generations.

Center for Strategic & International Studies: National Commission on Retirement Policy

In 1997, the Center for Strategic and International Studies convened the National Commission on Retirement Policy. The NCRP is bi-partisan bi-cameral public/private sector Commission which is co-chaired by myself, Congressman Stenholm, Senators Judd Gregg and John Breaux. Outside expert Commission members include representation from the following organizations, The Urban Institute, EBRI, IBM, Fidelity, Paine Webber, EXXON, and the World Bank, to name a few. The Commission has conducted hearings on the various reform proposals and will complete its work on a bi-partisan solution to the problems plaguing our Social Security program in May, 1998. The Commission will also be conducting education forums throughout the country over the next year.

Why do I mention all of these Commissions? It is not to suggest that the Bi-partisan panel concept does not have merit. I strongly believe there is a need to develop a mechanism for members of Congress to join together and develop comprehensive Social Security reform legislation. The key word in this statement is Congress. We do not need still another expert, external commission operating outside of the realities of the legislative process developing yet another list of recommendations. What we do need is movement toward actual legislation which can be passed by Congress and signed into law.

Super Committee Legislation:

Congressman Charlie Stenholm and I have introduced legislation which will create a bi-partisan bi-cameral Super Committee. The Super Committee will establish the process for the elected Representatives in Congress to review all of the Social Security reform proposals and develop a consensus proposal that can be enacted into law. By establishing the framework necessary to analyze the numerous Social Security reform recommendations previously proposed, we can ensure that Congress will not delay in reforming Social Security.

It is time for Congress to step up to the plate and take the next important step and formulate Social Security reform legislation. Specifically, the "Super Committee" will look at the Advisory Council proposals, the CSIS Commission work, other members legislation, and conduct hearings on other issues to help formulate a solution that will ensure the most viable Social Security program for the American people.

The "Super Committee" will include 16 House members and 16 Senators and it will be divided evenly between Republicans and Democrats. It is important to note, like a Commission, the Super committee will develop Social Security reform recommendations, but in the final analysis the Committees of jurisdiction would have final review of the legislation. After completion of the legislation, it would be referred to all House and Senate Committees with jurisdiction over the Social Security and then brought to the floor for consideration.

We do not need to begin at ground zero, again. The expert groups of the past several years have diagnosed the problems facing Social Security and many of these groups have also offered options to reform these problems. We need to look at these reform options and continue to move forward. During a recent Senate Budget Committee hearing, Alan Greenspan, the chairman of the 1986 Greenspan Commission on Social Security recognized the work of these groups, and stated, "that we don't start at square one. We are far beyond square one at this point."

If we are planning to move forward with a Commission or Bi-partisan panel we must make certain that it does not take us a step back. Members of Congress were elected to make tough choices. Our constituents expect their elected representatives to make the decisions on changes to a program of this importance in their lives.

GRASSROOTS CAMPAIGN:

There has also been a call for a national campaign which would devise methods of informing and engaging Americans—from all walks of life—and invite them to assist as members of Congress begin to formulate a Social Security reform proposal. However, it is important to note that many grassroots organizations have already

begun an intense national campaign. Please review attachment C which outlines all of the grassroots organizations—*Attachment C: Social Security Reform Grassroots Activities.*

I would like to mention one of these organizations. The Pew Foundation's *Americans Discuss Social Security* is an unprecedented nationwide initiative to advance public understanding of Social Security and engage Americans to participate more actively in determining its future. The Pew Charitable Trust grant of $12.5 million has created this two-year non-partisan effort. It will use a series of forums and round tables in all 50 states designed to create a national conversation about the future of Social Security and provide a framework in which millions of citizens from all walks of life can help America's policy makers resolve this issue.

The first ADSS event was a huge success with over 1,200 citizens participating in an interactive video teleconference linking citizens in 10 cities throughout the country. ADSS is already working on their next educational series. ADSS will host five citizen engagement forums to give 500 to 700 citizens in each location the opportunity to engage in an informed discussion about the future of Social Security. One of these events will be in Phoenix, Arizona which neighbors my district, and I intend to participate. ADSS will not stop with these five forums; it is their strategy to convene an educational forum in every state during this two-year campaign. Please review attachment D, which provides further details on the ADSS campaign— *Attachment D Americans Discuss Social Security.*

Kolbe Task Force on Retirement Savings:

Members of Congress can also develop their own Social Security reform dialogue in their districts. Recently, I have convened a group of 30 Tucsonans to participate in the *Kolbe Task Force on Retirement Savings*. The Task Force will meet quarterly and will coordinate Social Security reform discussions and information exchanges in conjunction with National Social Security events such as those convened by ADSS and the Concord and AARP forums.

Specifically, the Task Force will: assist in coordinating education campaigns in Congressional District 5 in conjunction with national forums; evaluate various Social Security reform options; disseminate information regarding retirement savings to Tucsonans; and share information with peers and report information to the Task Force.

CONCLUSION:

There is no doubt that we need to develop a campaign to engage the American people in the Social Security reform discussion; however, we should not repeat work that is already being done. We should work with existing educational efforts that prove effective in the communities. And, we need to give members of Congress the information necessary to discuss this information at home with their constituents. Each Member of Congress can and should develop task forces in their districts to engage their constituents in this discussion.

Mr. Chairman, the last point I would like to make is to urge Congress to move ahead with Social Security reform. If we convene a panel or create a national campaign, we must do so today. We cannot and should not delay reform. Saving Social Security should not be rhetoric, we must put the mechanisms in place to truly save Social Security first.

Let me reiterate; reform must happen today. Democrats and Republicans have both stated the need to reform Social Security today rather than tomorrow. In a letter from the Bi-partisan Commission on Entitlement and Tax Reform co-chairs, Senators Kerrey and Danforth stated "America is at a fiscal crossroads—if we act, we can help ensure continued growth and prosperity, but if we fail to act, we threaten the financial future of our children and our Nation."

And, although the Advisory Council on Social Security was unable to devise a unified Social Security reform proposal, in a hearing before the Ways and Means Social Security Subcommittee last year, the authors of the three Council options concurred on one point: reform is needed sooner rather than later. Ignoring the impending Social Security problems will harm the American people. If we delay reform we shorten the time needed by the American people to accumulate savings and adjust their plans for retirement. Any changes should be made while the baby boomer generation is still in the work force and have time to make adjustments.

ATTACHMENT A.—SOCIAL SECURITY REFORM LEGISLATION, PUBLIC PENSION REFORM CAUCUS, CO-CHAIRS CONGRESSMEN JIM KOLBE & CHARLES STENHOLM

104th Congress—Senators Alan Simpson & Bob Kerrey—S. 824—The Personal Investment Plan Act of 1995—Would allow taxpayers to reduce their Social Security payroll tax payments by 2 percentage points and direct this money into a Personal Investment Plan (PIP) of their own choice. Workers who choose this option would have their future benefits reduced by a corresponding amount, but this reduction would be offset with earnings form their PIP.

1994–1995 Advisory Council on Social Security—Option One—Maintenance of Benefits: Maintains benefits and increases revenues—increase benefit taxation, expand coverage, and increase taxes in distant future. Also, require government to begin investing large portion (35%–40%) of trust fund assets in private equity. Supported (as of Dec 14, 1995) by 6 of 13 members.

1994–1995 Advisory Council on Social Security—Option Two—Publicly-Held Individual Accounts: Maintain tax rate and scale back benefits plus mandatory individual account add-on-increase retirement age (and index longevity), and slow the growth of benefits for middle-and high-wage workers. Also, create mandatory individual accounts funded by 1%–2% increase in the payroll tax. These accounts would be held by the federal government, which would offer a narrow range of investment options. Supported by 2 of 13 members.

1994–1995 Advisory Council on Social Security—Option Three—Two-Tiered System with Privately-Held Individual Accounts: Transition to a Two-tiered system, with half of the retirement program privatized. The first tier would be comprised of a flat benefit for full-career workers and second tier would be compromised of fully funded, privately managed, individual accounts. These accounts would be funded with 5% of the current payroll tax, and the balance of the payroll tax (7.4%) would ultimately finance tier benefits on a pay-as-you-go basis. Additional transition costs would be absorbed by a consumption tax and additional federal borrowing.

Congressmen Jim Kolbe & Charlie Stenholm—H.J. Res. 112—Super Committee Legislation: This legislation establishes the process for the elected representatives in Congress to take all of the suggestions and develop a consensus Social Security reform proposal that can be enacted into law. The joint committee would have membership evenly divided between the parties. Legislation would be reported by the Joint Committee to the Committees of jurisdiction for review and modification.

Congressmen Bill Archer & John Kasich—H.R. 3095—Bipartisan Panel to design Long-Range Social Security Reform Act of 1998. The Panel would be deemed with the responsibility of designing a single set of reforms for restoring the solvency of the Social Security system for maintaining retirement income security in the United States.

Congressmen Bill Archer & John Kasich—H.R. 3546—Bipartisan Panel to design Long-Range Social Security Reform Act of 1998. The Panel would be deemed with the responsibility of designing a single set of reforms for restoring the solvency of the Social Security system for maintaining retirement income security in the United States. Additionally, the legislation would provide for the development of a National Dialogue on Social Security.

Senator Judd Gregg—S.321 Strengthening Social Security Act of 1997—Refunds 1 percentage point of each employee's current SS payroll tax into a personal savings account which may be invested in an IRA, or in a combination of funds (like the Thrift Savings Plan).

Senator Patrick Moynihan—S. 1792—cuts the payroll tax from 12.4 to 10.4 percent between 2001 and 2024. After 2024, the payroll would slowly increase and would top out at 13.4 percent in 2060. The proposal also allows individuals to invest in personal retirement accounts and increases the amount of wages subject to payroll tax. It also reduces the CPI by 1.0%.

Congressman Tom Petri—H.R. 1611 Retirement Security Act of 1997—Adds a new part B (Individual Retirement Investment Program—IRIP) to SSA which establishes a Personal Social Security Investment Account (PSSIA) with an initial one-time balance of $1,000 for each newborn after enactment.

Congressman John Porter—H.R. 2929 Individual Social Security Retirement Accounts Act of 1997—Workers stay in current system or choose voluntary Individual Private Investment Retirement Accounts (ISSRA). ISSRA accounts funded by diverting 5% of current 6.2% tax paid by both workers and employers resulting in 10% total contribution. A portion of the ISSRA account contribution will be used to purchase private disability and life insurance.

Congressman Mark Sanford—H.R. 2782 Strengthening Social Security Act of 1997—All individuals would maintain a Private Retirement Account (PRA). 6% is automatically deducted from each paycheck, which is matched by the employer for total contribution of 12%. Of that, 8% goes into the individual's PRA.

Congressman Nick Smith—H.R. 3082 Social Security Solvency Act of 1997—Worker's receive 2.8% of the 12.4% currently paid into SS starting in 1999 to put into an individually owned investment account, over time contribution rate will rise to 10.2%.

Congressmen Jim Kolbe & Charlie Stenholm—H.R.—May 1998—Congressmen Kolbe & Stenholm will be revealing their bi-partisan Social Security reform legislation.

Attachment B.—Social Security Reform Policy Commissions, Public Pension Reform Caucus, Congressmen Jim Kolbe & Charlie Stenholm

1994 Bi-Partisan Commission on Entitlement and Tax Reform: The Bi-partisan Commission was chaired by Senators Bob Kerrey (D–NB) and John Danforth (R–MS). The Commission assessed the need for and recommended long-term budget savings entitlement reform proposals. The Commission's findings specifically describe the economic future that will confront Americans and federal entitlement programs such as Medicare and Social Security with the retirement of the baby boom generation.

1994–96 Advisory Council on Social Security: The Advisory Council was deemed with the responsibility of formulating policy recommendations to address the long-range financial status of the OASDI program. After two years of meetings, the 13 member council, which included Social Security experts from both sides of the aisle, for the first time developed three different Social Security reform proposals. The one common element in all three plans is that *each plan utilizes the private market* to help ensure long-term solvency of the program.

Council—Option One: Maintains benefits and increases revenues—increase benefit taxation, expand coverage, and increase taxes in distant future. Also, require government to begin investing large portion (35%–40%) of trust fund assets in private equity. Supported (as of Dec 14, 1995) by 6 of 13 members.

Council—Option Two: Maintain tax rate and scale back benefits plus mandatory individual account add-on-increase retirement age (and index longevity), and slow the growth of benefits for middle-and high-wage workers. Also, create mandatory individual accounts funded by 1%–2% increase in the payroll tax. These accounts would be held by the federal government, which would offer a narrow range of investment options. Supported by 2 of 13 members.

Council—Option Three: Transition to a Two-tiered system, with half of the retirement program privatized. The first tier would be comprised of a flat benefit for full-career workers and second tier would be compromised of fully funded, privately managed, individual accounts. These accounts would be funded with 5% of the current payroll tax, and the balance of the payroll tax (7.4%) would ultimately finance tier benefits on a pay-as-you-go basis. Additional transition costs would be absorbed by a consumption tax and additional federal borrowing.

1997–98—Center for Strategic and International Studies (CSIS) National Commission on Retirement Policy: A bi-partisan bi-cameral public/private sector Commission. The Commission will conduct hearings throughout the country to educate and engage the American people in the debate. The Commission, which includes Social Security experts from the private sector, is developing a bi-partisan fix to the problems plaguing our Social Security program.

1996–98 House Public Pension Reform Caucus: the caucus provides Members of Congress and their staff a bi-partisan forum to discuss, research, and examine the problems plaguing the Social Security program and the various options for reform.

1997–1998 National Academy of Social Insurance: Academy on Privatization of Social Security. The Academy's Panel on Social Security Privatization is analyzing all Social Security reform options, including all three Advisory Council on Social Security options. The Panel is conducting extensive research in all areas of Social Security reform, including administrative costs and feasibility, generation equity and public private arrangements.

Attachment C.—Social Security Reform Grassroot Activities, Public Pension Reform Caucus, Congressmen Jim Kolbe & Charlie Stenholm

March 1997—Kolbe Forum—*Social Security Reform: Putting Market Forces to Work* & May 1997—Stenholm Summit—*Strengthening Social Security For Today And Tomorrow* The purpose of each conference was to provide an opportunity for constituents to personally participate in a discussion with policy-makers, and to inform as many as possible about the problems and solutions for Social Security.

The PEW Foundation—Americans to Discuss Social Security: The mission of the ADSS campaign is to engage Americans from all walks of life in a country-wide debate about the future of Social Security, and to provide a framework within which these citizens can help America's policy makers to resolve this issue. The campaign is planning the following:

- A 10-city interactive teleconference linking people from across the country.
- Sponsor a college outreach program called the "Social Security Challenge."
- Public opinion surveys on 1) Images of Aging, 2) Public Attentiveness, and 3) Intergenerational Issues.

Executive Director Carolyn Luckensmeyer
2001 Pennsylvania Avenue, NW, Suite 825
Washington, DC 20006
Tel: 202.955.9000
Fx: 202.955.3011
www.adss.org

Cato Institute: Cato will continue to publish research papers and host forums and conferences on how to move to a Chilean-style system of personal retirement accounts. In May will be a forum on the Hill on women and Social Security reform, and a major conference will be held at Cato in June. Jose Pinera, the architect of the Chilean system, is the co-chairman of Cato's project and visits regularly. Cato's social security website, www.socialsecurity.org, includes all published materials and an interactive calculator.

Lea Abdnor/Michael Tanner
1000 Massachusetts Avenue, NW
Washington, D.C. 20001
Tel: 202–842–0200
Fax: 202–842–3490
www.socialsecurity.org

Committee for Responsible Federal Budget & American Express Building a Better Future—The Graying of America: A year-long ten-city tour which combines an educational program on the budgetary impact of the aging population with an Exercise in Hard Choices, utilizing electronic polling to test pre-and post-program perspectives.

President Carol Cox Wait
220 E Street, N.E.
Washington, D.C. 20002
Tel 202–547–4484

Concord Coalition & American Association For Retired Persons: In conjunction with the White House the AARP & Concord will coordinate four forums throughout 1998 discussing the problems and solutions to Social Security.

AARP Executive Director—Horace B. Deets
601 E Street, NW
Washington, D.C. 20049
Tel: 202.434.2277
Fx: 202.434.3714
www.aarp.org

Concord Coalition: Concord will be coordinating at least one forum a month as part of its Paul Tsongs Project on Generational Responsibility. In addition, Concord will be hosting its new public education exercise, "Just Generations" in which small groups work together as their own entitlement reform commission.

Martha Phillips
1019 19th Street NW, Suite 810
Washington, D.C. 20036
Tel: 202.467.6222
Fx: 202.467.6333
www.concordcoalition.org

Economic Security 2000: Economic Security 2000 is a nationwide, grassroots organization dedicated to saving and reforming Social Security. ES 2000 seeks to focus the Social Security debate on the need to create savings, and wealth, specifically, for those middle and lower income workers currently cut out of the chance to save.

President Sam Beard
1522 K Street NW, Suite 634
Washington, D.C. 20005
Tel: 202–408–5556
Fax: 202–408–5352
www.economicsecurity2000.org

The Heritage Foundation: Heritage has developed reports analyzing social security/retirement savings reform efforts in Great Britain and Australia. Heritage has also created a program to perform rate of return analyses. It allows individuals to compare rates of returns for benefits under the current Social Security program and on investments in the market for both current and future retirees.

Bob Moffit/Dan Mitchell/Bill Beach
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
Tel: 202.546.4400
Fx: 202.544.5421
www.heritage.org

House Public Pension Reform Caucus: The PPRC will continue its educational briefings, informational papers and exchange of ideas with members of Congress and their staff throughout 1998.

Chairman ARCHER [presiding]. And my congratulations to you for the work you have done over the years on what is really a significant, major, long-term problem for this country.

Mr. KOLBE. Thank you.

Chairman ARCHER. And we have two other Members who are also very interested in this issue, and have worked on it. And our next witness is Congressman Nadler from New York, and we're happy to have you before the Committee, and I think maybe that Chairman Shaw mentioned we'd like for you, if you could, to keep your oral testimony within 5 minutes, and your entire written statement, without objection, will be inserted in the record. And you may proceed.

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

Mr. NADLER. Thank you, Mr. Chairman. Thank you for your invitation to testify here and for holding these hearings.

Maintaining the Social Security system on a sound financial footing is a pressing issue of great importance, and I appreciate the opportunity to be involved in the debate. Only a few months have passed since the President's State of the Union Address in which he called for Congress to dedicate the upcoming budget surplus to strengthening Social Security. In that short time, however, the entire Nation seems to have begun a national dialog about what to do about Social Security. From the dining room table, to the shop

floor, to Washington think tanks, people all over the country are talking about Social Security.

On the national level, the dialog is growing as well. In addition to the President's townhalls, there is Americans Discuss Social Security, and the AARP is planning to hold a series of national meetings. Along with these meetings, every major group involved in Social Security, including those listed in H.R. 3546, has plans for national outreach and dialog efforts. This groundswell of democratic debate is cause for celebration. It shows that our political system is alive and well, and capable of holding meaningful, large-scale debates.

But it does raise a question: Why do we need to empanel yet another deliberative body to talk about Social Security? We already have the means at hand to determine how various constituencies and groups feel about Social Security. We also have the mechanism of the democratic process: hearings, testimony, townhall meetings, and public forums. While I respect the desire to create a bipartisan body to help devise a comprehensive bipartisan solution, I do not think we need a new blue-ribbon panel or commission to come between the American people and its elected representatives.

I support the spirit behind this resolution, but I disagree with its approach. If Congress wants more input from the American people and from the groups that represent them, more than we're getting from our normal relations with our constituents and from all these other groups and dialogs that are happening, let's have a direct dialog. We don't need another middleman.

I also have more than a little suspicion that one of the unstated purposes of the resolution is to create a commission to serve as a panel from which to give an official blessing to the real, and from my point of view, pernicious goal of the exercise: privatizing the Social Security system.

After all, Social Security has long been considered the third rail of American politics: Touch it and you die. So if you want to rob the American people of the security they have long been guaranteed by the Social Security system, and subject each of them instead to the uncertainties of the stock market, it's difficult to admit what is being done. First you whip up hysteria based on the false notion that the Social Security system is in crisis, that it's going bankrupt, and then you hide behind a commission.

I would like to take a moment to remind the Committee that Social Security is not bankrupt and it is not in crisis. In fact, the Social Security trustees tell us that the Social Security system is not very sick at all. The trustees' 1997 report estimates that Social Security is fully funded to pay all benefits for the next 30 years, and it is funded to pay at least 75 percent of benefits due for 45 years after that. This does not describe a crisis, and certainly not an imminent crisis.

The trustees tell us that the system faces a long-term, that is 75-year shortfall, of 2.2 percent of taxable payroll, or 1.1 percent each for employers and employees each over that 75-year period. This is a problem of modest dimensions that can be managed and should be managed with modest measures while completely protecting Social Security beneficiaries, past and future, from risk and from poverty.

This Committee should also be aware that there is a major body of responsible economic opinion that believes even this 2-percent estimate over 75 years is substantially overstated. The estimated shortfall is based on long-term average economic growth projections of only 1.7 percent annually for the next 30 years, and a 1.3-percent annually averaged over 75 years, rates of growth this country has experienced in its history only for a few years during the Great Depression.

For perspective, I would remind the Committee that we are currently experiencing not 1.3 or 1.7-percent growth, but 3.8 percent—3.8 percent growth. The administration projects long-term growth of 2.4 percent, a rate of growth that, if sustained, would generate Social Security surpluses for at least the next 75 years and for, in fact, as far into the future as we can foresee.

This should be the starting point for future Social Security discussions: that what is essentially a worst-case scenario, projecting wildly pessimistic growth rates of 1.3 percent, still projects a long-term shortfall of only a manageable 2 percent. We should avoid taking drastic and radical actions such as privatization or increasing the retirement age or similar measures to deal with this modest long-term problem. Privatization, in particular, is not necessary and would expose millions of American families to substantial economic risks.

We are told that the stock market enjoys an average return over the long term of 7-point-something percent, and that we should take advantage of this. There are several problems with this, three problems.

First, studies have shown that the stock market goes in 20 year spurts. You may have a high rate of growth for 20 years, then a low rate for 20 years, and so forth, and that means that if you have a privatized system, whether you do very well with your account on average or not, depends on whether you start your working career at the beginning of a high 20-year period or a low 20-year period.

Second, when the baby boomers start to take their money out of the market when we retire—I'm a baby boomer—when we start retiring and taking our money out of the market to spend during our retirement, that's going to be a tremendous downward pressure on the stock market. Right now it's all going in, a lot of it is going to be coming out then, so we can't assume that kind of growth in the market over the long term.

And, finally, all of these—even if you're talking about long-term growth at high rates—are averages. Averages are very deceptive. If someone were standing in front of us with one leg in a caldron of boiling water, and the other leg in a vat of liquid hydrogen at −400 degrees, on average, he'd be doing fine. He would have severe problems with both legs, but on average, he'd be doing fine because one leg would be boiling and the other freezing.

Millions of Americans under a privatized system, even if the average were fine or very good, millions of Americans would do very well, and millions of Americans who guessed wrong or didn't invest wisely would be in abject poverty. We allow for risks for people's private savings and private IRAs and so forth, because we say the third leg of that stool—we always said that there should be three

legs on the retirement stool: private savings, private pensions, and Social Security, which should be almost risk free or entirely risk free. And this would put a huge risk into it.

It would shift the risk. A privatization scheme shifts the risk from the government. The worst risk that you have under the current Social Security is maybe you run short of money and the government has to run a deficit to pay the benefits due which is a legal entitlement. It's a far-fetched risk but it's there. Under a privatized system, the risk is on the individuals, and for all these reasons, we shouldn't consider it.

Returning to the resolution at hand, we should have faith that the ongoing debate will yield the information we need to forge sound legislation to enable Social Security to meet the challenges, the mild challenges, of the 21st century as admirably as it has met the challenges of this century. We should also take steps to ensure the debate starts with a sound assessment of the problems facing Social Security. If we do not, and we allow the current mood of hysteria to rule the debate, we will wind up administering a cure worse than the disease, and there's not a family in America that would not stand a real chance of feeling the pain.

Thank you, Mr. Chairman.

[The prepared statement follows:]

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

Thank you Mr. Chairman for inviting me to speak here today. Maintaining the Social Security system on a sound financial footing is a pressing issue of great importance to the country and to my constituents, and I appreciate the opportunity to be involved in the debate.

Only a few months have passed since the President's State of the Union Address—in which he called for Congress to dedicate the upcoming budget surplus to strengthening Social Security. In that short time, however, the entire nation seems to have begun a national dialogue about what to do about Social Security. From the dining room table to the shop floor to Washington think tanks, people all over the country are talking about Social Security. On a national level, the dialogue is growing as well. In addition to the President's town halls, there is Americans Discuss Social Security, and the AARP is planning to hold a series of national meetings. Along with these meetings, every major group involved in Social Security—including those listed in HR 3546—has plans for national outreach and dialogue efforts.

This groundswell of democratic debate is cause for celebration—it shows that our political system is alive and well and capable of holding meaningful, large-scale debates.

But it does raise a question: why do we need to empanel yet another deliberative body to talk about Social Security? We already have the means at hand to determine how various constituencies and groups feel about Social Security. We also have the democratic processes: hearings, testimony, town hall meetings, and public forums. While I respect the desire to create a bi-partisan body to help devise a comprehensive bi-partisan solution, I don't think we need a new blue ribbon panel or commission to come between the American people and its elected officials. I support the spirit behind this resolution, but disagree with its approach. If Congress wants more input from the American people and from groups that represent them, let's have a direct dialogue. We don't need another middleman. I also have more than a little suspicion that the unstated purpose of this resolution is to create a commission that will give an official blessing to the real—and I believe, pernicious and destructive, goal of the exercise—privatizing the Social Security system.

After all, Social Security has long been considered the "third rail of American politics"—touch it and you die. So, if you want to rob the American people of the security they have long been guaranteed by the Social Security system, and subject each of them, instead, to the uncertainties of the stock market, you had better not admit what you are doing. First, you whip up hysteria based on the false notion that the Social Security system is in crisis—that it is going bankrupt—and then you hide behind a commission.

I would like to take a moment to remind the Committee that Social Security is not bankrupt, and it is not in crisis.

In fact, the Social Security Trustees tell us that the Social Security system is not very sick at all. The Trustees' 1997 report estimates that Social Security faces a long-term shortfall of 2.2 percent of payroll—or 1.1 percent each for employers and employees. This is a problem of very modest dimensions that can be managed with modest measures—while completely protecting Social Security beneficiaries, past and future, from risk and from poverty.

This Committee should also be aware that there is a major body of responsible economic opinion that believes even this 2 percent estimate to be substantially overstated. This estimated shortfall is based on long-term economic growth projections of only 1.3% annually—a rate of growth this country has experienced only during the Great Depression. For perspective, I would remind the committee that we are currently experiencing 3.8 percent growth. The Administration projects long-term growth of 2.4 percent—a rate of growth that—if sustained—would generate Social Security surpluses for at least the next seventy-five years.

This should be the starting point for future Social Security discussions—what is essentially a worst case scenario, projecting wildly pessimistic growth rates of 1.3%, and still arriving at a long-term shortfall of only a manageable 2 percent. We should avoid taking drastic and radical actions such as privatization, increasing the retirement age, decreasing benefits, or similar measures. Privatization, in particular, is not necessary, and would expose millions of American families to substantial economic risks. In the end, privatizing Social Security will most certainly cost the American people far more than would modifying the system within its current structure.

Returning to the resolution at hand, we should have faith that the ongoing debate will yield the information we need to forge sound legislation to enable Social Security to meet the challenges of the twenty-first century as admirably as it has met the challenges of this century.

We should also take steps to ensure that the debate starts with a sound assessment of the problems facing Social Security. If we don't—and we allow the current mood of hysteria to rule the debate—we will wind up administering a cure worse than the disease—and there's not a single family in America that won't feel the pain.

Chairman ARCHER. Thank you, Mr. Nadler. Our last witness on this panel is Mr. Pomeroy. We're pleased to have you before our Committee, and you may proceed.

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

Mr. POMEROY. Thank you, Mr. Chairman and colleagues. I appreciate very much the opportunity to testify before you today on what I believe is the most important issue we'll ever have the responsibility to address: preserving Social Security for future generations of Americans.

I think our work on this topic in this session should address three goals. First, we must set aside the budget surplus for use in assuring Social Security's long-term financial health. Second, we must stop legislative proposals that would spend the surplus to make piecemeal changes under the guise of Social Security reform. And, third, we must advance a public discussion of Social Security's future, leading to the development of comprehensive, bipartisan reform to preserve the program.

I believe the American people understand that Social Security is more than an individual investment plan. It's a comprehensive program that protects against the unforeseen risks presented in life and provides a guaranteed, dependable benefit for as long as each of us may live.

The experiences in my own family are representative of the critical role Social Security has played in the lives of millions over the last six decades. My father died while my brother and I were minors. Social Security provided vital income for my newly widowed mother and survivor benefits to my brother and myself. We absolutely depended on this support while we pulled ourselves together and moved on. My mother is now 77, lives independently, thanks to the Social Security check. As long as she's healthy, be it 87, 97, or 107, she'll be able to live independently, provided her health allows, thanks to the guarantee of lifetime Social Security benefits.

As a result, Social Security is simply the most important, most successful program every undertaken by the Federal Government, and saving the budget surplus to preserve this program must be our highest priority.

Our second goal should be to stop legislative proposals that run counter to the save Social Security first pledge and the aim of comprehensive, bipartisan reform. Unfortunately, the Personal Retirement Savings Account Act of 1998, introduced by Budget Chairman John Kasich, and endorsed this morning by the Speaker, is a proposal that I believe is inconsistent with saving Social Security first.

Rather than saving the budget surplus to be used as part of a long-term Social Security plan, the proposal would spend the surplus now in a piecemeal way when we have barely begun the public discussions and bipartisan deliberations we all know will be necessary. The budget surplus the Speaker proposes to spend this year comes from excess reserves in the Social Security trust fund. Make no mistake: the surplus is 100 percent from Social Security. So what he's really proposing is to take money from the current Social Security program, with all its strengths for American families, to initiate an untested experiment in individual accounts.

This plan is quite simply the beginning of the end of Social Security as we know it. Funding individual accounts this year out of the Social Security surplus makes the solvency challenge to Social Security worse, not better. It makes our job of shoring up the program for the long haul even more difficult. The Speaker's plan sounded wonderful this morning, but think about it a minute. There's no free lunch. Money directed from the existing Social Security Program into individual accounts is money not available to support the Social Security Program. And what does this critical tradeoff bring the American people? A weaker Social Security Program in exchange for an individual account containing an amount estimated to be a whopping $44 this year. Now such a sum will do nothing, almost nothing to advance the retirement security of American families. It'll barely buy them dinner. And the sum is certainly not worth the high price of undermining the goals of saving Social Security first and developing a comprehensive, long-term plan for Social Security's future.

In my remaining moments, Mr. Chairman, I'll specifically address your bill. I think we need to think long and hard before deciding that a commission rather than Congress itself led by this able Committee is the best place to being developing bipartisan recommendations on saving Social Security's future. I'm not automatically opposed, but I believe that probably we'd be better served keeping that function within the halls of Congress itself.

On the part of the bill that involves a national dialog, I think we should address three aspects—or answer three questions. The dialog should not duplicate or detract from the nonpartisan national discussions already underway by the AARP, Concord Coalition, and by Americans Discuss Social Security. Second, I'd hope that the organizations that would nominate the participants to the dialog provided for under the bill would be fully representative of the broad perspective of views on this issue. And third, I think the source of funding should be also identified for this dialog function.

The final point of concern regarding the legislation—I think the legislation advances a positive effort: developing national dialog, advancing a bipartisan solution. That's very, very good. The final concern I have about it, however, is that the timetables provided in the bill would actually delay the timetables advanced by the President of leading to a White House summit in December of this year, 1998, and on to negotiations between the administration and Congress in early 1999.

I desperately want to get this done within the next Congress and before the new millennium. And I fear that any sliding on those timelines will make it difficult to accomplish this before the Presidential election in the year 2000 overtakes all else.

Thank you very much for listening.

[The prepared statement follows:]

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

Mr. Chairman, Mr. Rangel, Members of the Committee, thank you for the opportunity to appear before you this morning to discuss what I believe is the foremost policy imperative facing our nation and this Congress—preserving Social Security for the baby-boom generation and beyond.

As we begin this task in earnest, I believe our goals must be three-fold. First, we must set aside the budget surplus for use in assuring Social Security's long-term financial health. Second, we must advance the public discussion of Social Security's future with an eye toward development of a comprehensive bipartisan plan to preserve the program. And third, we must resist legislative proposals that would undercut these first two goals by using the surplus to make piecemeal changes under the guise of Social Security reform.

SAVE SOCIAL SECURITY FIRST

Like Americans throughout our country, I have been extremely heartened by the high priority placed on this issue by President Clinton and his entire Administration. In making his State of the Union declaration to "Save Social Security First," President Clinton challenged the Congress to resist the temptation to use the surpluses for tax cuts or spending increases and set forth a process for national discussions followed by bipartisan legislative reform.

The President's pledge to Save Social Security First has resonated with the people of my home state of North Dakota and with families throughout our nation. Americans understand that far from being a mere pension plan, Social Security protects families against the unforeseen risks of life. The experiences in my own family are representative of the critical role Social Security has played in the lives of millions over the last six decades. My father died while my brother and I were still minors. Social Security provided vital income for my newly widowed mother and survivor benefits to my brother and myself. We absolutely depended on Social Security support while we pulled ourselves together and moved on. My mother is now 77 years old and lives independently, free from the fear of poverty and dependence in old age. Without Social Security, this would not be possible. Social Security is simply the most important and most successful program ever undertaken by the federal government. Saving the budget surplus to preserve this program must be our highest priority.

Mr. Chairman, I have been encouraged not only by the President's words but also by the statements and initiatives put forward in recent weeks by the Republican

leadership that express a commitment to Saving Social Security First and working together to preserve the program for future generations. I welcome these developments and believe firmly that only a comprehensive and bipartisan approach to reform will result in success.

COMPREHENSIVE, RESPONSIBLE, BIPARTISAN REFORM

With this second goal of comprehensive, responsible, bipartisan reform in mind, Mr. Chairman, I welcome all proposals that move us in that direction. A bipartisan commission of experts such as would be authorized under your National Dialogue on Social Security Act—H.R. 3546—is certainly one way to move toward this shared goal and I applaud its emphasis on development of long-term solutions. I do believe, however, that we must think long and hard before deciding that a commission, rather than the Congress itself led by this able Committee, is the best body to develop bipartisan recommendations on Social Security's future.

As we all recognize, public discussion and input will be critical to the success of any Social Security plan, and I am pleased to see that Title I of H.R. 3546 will establish a formal National Dialogue on Social Security. I have three suggestions with respect to this portion of the bill. First, I urge you to ensure that this Dialogue will not duplicate or detract from the non-partisan national discussions already undertaken by AARP and the Concord Coalition and by Americans Discuss Social Security. Second, I hope you will work to see that the organizations that will nominate the participants in this Dialogue represent the full and broad spectrum of views on Social Security. And third, I hope you will soon specify the source of private funding for the Dialogue. Resolving each of these issues will help ensure that the National Dialogue you have proposed will advance the second goal of an open and honest public conversation leading to comprehensive, responsible, bipartisan reform.

NO PIECEMEAL EXPERIMENTS

Mr. Chairman, I have stated that our third goal must be to steadfastly oppose legislative proposals that run counter to the Save Social Security First pledge and the aim of comprehensive reform. Unfortunately, the Personal Retirement Savings Account Act of 1998, H.R. 3456, recently introduced by Chairman Kasich is just such a proposal. Rather than saving the budget surplus to be used as part of a long-term Social Security plan, Mr. Kasich's legislation would spend the surplus now in a piecemeal way—when we have barely even begun the public discussions and bipartisan deliberations we all know will be necessary.

We must also remember where the budget surplus Mr. Kasich would spend this year will come from—from excess reserves in the Social Security Trust Fund. So what he is really proposing to do is to take money out of the current Social Security program—with all its strengths for American families—to initiate an untested experiment in individual accounts. This plan is quite simply the beginning of the end of Social Security as we know it.

While the dangers of Mr. Kasich's piecemeal retirement account legislation are thus clear, the benefits for the American worker are not. Under H.R. 3456, each eligible employee would be entitled to a retirement account worth a whopping 44 dollars this year. Such a sum will do almost nothing to advance the retirement security of American families. And such a sum is certainly not worth the high price of undermining the goals of Saving Social Security First and developing a comprehensive, long-term plan for Social Security's future.

I should also note that Chairman Kasich has expressed interest in a fundamentally redesigned Social Security system based on individual accounts. He may well see his Personal Retirement Savings Account legislation as a means toward that end. Yet such an individual account redesign involves monumental transition costs—literally trillions of dollars—and no one has yet explained how these costs would be paid for. In addition, a Social Security system based on individual accounts will entail greater retirement risk for workers, insufficient survivor and disability coverage, a loss of progressivity, and higher administrative costs. We must be very cautious about heading in that direction. At the very least, we must not adopt such an individual account plan before we have had the opportunity for a full and open national debate.

Thank you, Mr. Chairman, for the opportunity to appear before you this morning. I look forward to continued cooperation with you and the Members of the Committee in advancing the public discussion and in enacting a bipartisan solution that will preserve Social Security for the baby-boomer generation and beyond. The American people deserve nothing less.

Chairman ARCHER. Thank you, Mr. Pomeroy. I find myself a wee bit confused as I listen to your comments and I happen to listen to those of Mr. Nadler. Mr. Nadler said we really don't need to worry about doing anything between now and the next millennium, as I understood it. That this is not a pressing problem. That it's 30 years off, and why should we be attempting to move so rapidly? Did I misunderstand you?

Mr. NADLER. Yes, you did. What I said was, and let me clarify, I appreciate the question. What I said was, we have a problem. It's not a problem we should wait 30 years to deal with. The problem won't manifest itself for 30 years, but we should deal with it now. The Social Security system, according to the Trustees' Reports, and no one has disagreed with them, is fully funded for 30 years——

Chairman ARCHER. You have not heard the Chairman's view on that yet, but go ahead.

Mr. NADLER. OK, well, I haven't read any disagreements. I'm not a Member of this Committee. I haven't read—the Social Security, what I said was, according to the trustees, the system is fully funded to pay all benefits due until the year 2029. It's 77 percent funded, that is, it's funded to pay 77 percent of all benefits for the next 40 years after that. So there is an imbalance over the 75-year forecast period. There's a shortfall, according to the trustees, equal to 2.23 percent, 2.2 percent of taxable income. That is a problem, but it's a manageable problem. It may not be manageable if you wait 30 years to deal with it. It's a manageable problem if we deal with it now. We don't need radical solutions. There are a menu of things you could do, easily, in the next year or two, without privatizing, without raising, you know, without raising the retirement age. There are a number of things you could do to cover that 2.2-percent problem, as long as you do it fairly soon.

In addition that is a very pessimistic outlook. There's a body of economic opinion that points out, well, it's a fact. It's not debatable. It's a fact that that projection of the 2.2-percent problem, is based on assumptions of an economic growth rate, average economic growth rate for the next 30 years annually of 1.7 percent, an average over 75 years of 1.3 percent, far lower than we've ever done in our history. We're now doing about 3.8. Historically, we've done between 2.5 and 3.5 percent. If you make an assumption—if you assume a 2.4-percent economic growth average, which the administration does in its budget projection in the next 10 years, if you assume that you maintain that rate, you have no problem at all. I'm not urging that we should make that assumption, I'm simply saying that even what amounts to a pessimistic assessment says we have a small manageable problem which we ought to deal with now. But that if we don't deal with it, it will hit us over the head, but it won't hit us over the head for quite a while.

Chairman ARCHER. I'm glad you were able to clarify because I think then we're all in agreement that we need to address this——

Mr. NADLER. Yes.

Chairman ARCHER [continuing]. Problem now. It is very important that we be in bipartisan agreement on that. I'm curious about the idea that the Congress should simply act on this, without hav-

ing the benefit of any recommendations from a bipartisan intergenerational Committee designed in such a way to where there is equal input from all generations.

Number one, I'm not sure the Congress represents that equally. But perhaps the Congress in its infinite wisdom can override the fact that it is not representative of all of the various age groups that need to be considered. But if we were to follow your suggestion and not have a commission, you fully believe that no individual in the Congress would attempt to get partisan political advantage out of the issues as they begin to emerge and be debated?

Mr. NADLER. I think, sir, if you're asking me a question, sir?

Chairman ARCHER. Right, yes.

Mr. NADLER. First of all, let me say, that I think we've had a number of commissions that Congressman Kolbe mentioned several of them, the advisory commission, there have already been a number of commissions. There are a number of dialogs and commissions functioning out there right now. The Pew, the Americans Discuss Social Security, the AARP is doing them, the President's series of panelists, all of these are going on. I'm not sure we need another one.

Second, do I believe that a Member of Congress—that no Member of Congress, or anybody else for that matter, no candidate for Congress, will seek to make political hay out of this? Of course not. People are going to make political hay out of anything, and certainly on issues as important as this. Some people are going to be demagogs, and some people are going to be more responsible.

What I think, though, is ultimately we have to make that decision. We're the elected representatives of the American people. What I don't want to see is a commission represented by age groups, or otherwise, that—I don't want a situation structured whereby that commission, bipartisan, and so forth, comes in with a report that has such momentum behind it that Congress can't really change it. That the people who really make the decision are the people on that commission, and that Congress, which is the representative body of the American people, is sort of steamrolled into accepting whatever they propose, where they make a proposal in March, and we're going to enact a bill in June. That bothers me.

I think there is plenty of wisdom and plenty of responsibility in the elected representatives of the American people, in both parties represented in the House, and in the other body. If we need more information, go out and get it. We've been informed by a number of commissions. There are others that are working now. I don't think we're going to suffer from a dearth of information.

I do think that dialogs and more publicity, and hearing people, and so forth, as are being done in several different forums now, and are starting to be done in the townhall meetings, and so forth, is useful and necessary. But I don't see that we need a commission. I wouldn't mind a commission if I were assured, if I were confident, I should say, that it wouldn't be—that the situation wouldn't be structured in such a way that for all practical purposes, they would make the decision which would then be rammed through Congress, essentially unchanged.

Chairman ARCHER. Number one, the legislation that is before the Committee now, which can be changed, obviously, in a markup

process, in no way authorized a commission to take over the role of the Congress, and that the Congress will be bound precisely by what the commission recommends. Clearly, that is not the intention of the Chairman, or the intention of the legislation. So, I would disabuse you of those fears.

But, let me I compliment you on what you clearly have done, which is to inform yourself, and to study, and to learn a lot about Social Security. And that comes through in your testimony today. And since this information, all kinds of information, as you say, has been developed, and is out there in the public sector for anybody that wants to read it, do you have a specific proposal you would like to put before the Committee to resolve this problem?

Mr. NADLER. Some of us are developing a proposal. It's not ready yet. There is a menu, one could just off the top of one's head, recite a menu of proposals that would solve the problem, that would——

Chairman ARCHER. But Mr. Nadler, we're not looking for menu right now——

Mr. NADLER. Right.

Chairman ARCHER [continuing]. If we are to make this decision congressionally, we need to have a specific minority proposal, and if you have one, then we would be more than pleased to receive it——

Mr. NADLER. Right.

Chairman ARCHER [continuing]. So we could look at it and then determine whether if it's worth having a commission, or whether it's worth going with your proposal.

Mr. NADLER. Well, I appreciate that, Mr. Chairman. I am working with a number of groups now trying to come up with a consensus proposal. We're not ready yet, but it will be certainly within this Congress that we will have a proposal.

Chairman ARCHER. Well, we'd be more than happy to receive it, and to look at it. If the commission is set up, then the commission would, of course, look at your proposal, whatever it might be. We'll move in that direction.

Mr. NADLER. Mr. Chairman, if I may comment on, or answer something you said a moment ago. Obviously, the legislation doesn't call for the commission to displace the role of the Congress, and I did not mean to suggest that it did, my concern is not the legislation, is not what the legislation says about the commission, it's a situation that perhaps is being set up. The rhetoric we hear, and I don't mean to suggest it's only rhetoric, the concern we hear, and we've heard this for decades, it's such a volatile issue, such an important situation, such a volatile issue, that we can't trust Congress, or we can't rely on Congress to come up with a responsible bipartisan solution, because everybody is afraid that if somebody—if sacrifice on the part of somebody is called for, don't blame me for suggesting it. Blame the other guy, and nobody in Congress wants to be in the position of taking that responsibility.

Therefore, what happened in 1983, as I recall, a bipartisan commission was set up. It made what in retrospect were, I think, quite good recommendations. And they were pushed through Congress. I wasn't here, but what I understand is, they were pushed through Congress rather quickly, and pretty substantially what was recommended, and it essentially did the work that Congress should

have done. And, frankly, that's not what I would like to see repeated.

Chairman ARCHER. Well, Mr. Nadler, I was on that Commission with Senator Dole, and I lived through all of those deliberations. I sat on this Committee when the recommendations of the Commission came back, and they were very seriously deliberated and considered by this Committee. I myself offered a complete substitute in this Committee which was also debated and considered by this Committee. Nothing was rammed through the Congress simply because the commission made its recommendations.

But the Congress had been unable to come together, certainly not on a bipartisan basis, because a number of Members demagogued the entire issue, and poisoned the entire environment for those who did want to work together cooperatively, and made it impossible for the Congress to come together and to reach a solution. The Commission then did come forward, it was debated thoroughly.

I happened to be one of the three that was on the minority and did not approve of the Commission's recommendations, primarily for one reason, as I analyze the actuarial projections, I believed it did not save Social Security for 75 years. And we were instructed to reform Social Security so that it would be stable for 75 years. The Commission did not do that. It fell woefully short, and that's why we're here today. Had it done its job, and had the recommendations provided the solution for 75 years, we wouldn't be here today.

Now part of the rationale for that was that the actuaries were off in their projections. But I didn't wait until this last year to say they were off. I said they were off when the Commission met. I said we cannot rely on this. They are not valid. It is clear from a commonsense standpoint that they will not hold up.

Now once again, and this is inherent in your testimony, and I'm not trying to put it down because it's what you have to rely on, we are relying on actuarial projections, and those projections may be better this time than they were before because I haven't looked at them, but I can tell you the ones that were relied on in 1982 were woefully wrong, and clear on their face that they would be woefully wrong. And so in the end, the bottom line was that the Congress did adopt almost everything in the commission's recommendations, and then also added some other things to it. But we could not come together on a bipartisan basis in the Congress at that time.

I lived through the budget summit which also dealt with long-term difficult issues before the Congress. And the budget summit was an effort on the part of the administration and a Democrat Congress to come together to try to get the deficit down, and in the end for political purposes leaks came out of that over and over again. Those were Members of Congress together. No outside individuals from the private sector, deliberately released for political advantage, and frankly, I doubt that in this sensitive an issue that the Congress will come together and do something on a bipartisan basis without those trying to take political advantage of it, poisoning the entire environment. I've been through that too many times and what we seem to learn from history is we never seem to learn from history.

Mr. NADLER. Mr. Chairman, I think there's one other thing we might learn from history in light of your remarks. You may very well be right about most of what you're saying. I think that one, I think we should learn at least one other thing from history. The Commission in 1983, and the Congress in 1983 did a good job, ultimately. And they didn't make the system actuarially sound for 75 years, if we can believe the current actuarial estimates they made it sound for 47 or 48 years, which is not bad given the inherent risks of projections.

I suspect, frankly, that it is unrealistic to expect that you can make anything actuarially sound or project anything for 75 years. Imagine at the end of the Civil War in 1865 trying to project the state of the economy at the beginning of World War II in 1940, that's 75 years. And, frankly, the job that was done in 1983 that we now believe will keep the system perfectly sound through 2029 is a good long run, and it's a system that, like any other system, needs midcourse corrections from time to time.

And by the way, it might be, I don't want to suggest this, but it might be that a more realistic thing should say we should look in 50 year increments, instead of 75, because I don't think anybody can have any idea now what the economy is going to be like, what the economic growth rate is going to be in 2065.

Chairman ARCHER. Well, I personally believe we can do it. I think where you're dealing with Social Security, in contrast to Medicare which has all kinds of variables and subjectivity in them, you can adequately predict demographics for 75 years, barring some of cataclysm or world war or something of that nature, but I think you can. And I predicted in 1982 what we were going to face over 75 years and I was pooh-poohed. And I was right. It can be done much better. If we want to take a Pollyanna approach so we don't have to make the tough decisions, of course, you can say, "Well, let's only do it for 30 years. Let's only do it for 40 years." But if you want to err on the side of being safe, you can do it for 75 years and I think we should because young people in this country today are totally disillusioned by this system, and we need to restore the confidence on the part of young people that there will be something there in 75 years. I think that's our responsibility but, I guess we've belabored that long enough.

Mr. Pomeroy, you made a comment about the Social Security money being used to pay other government expenses. What would you do with the Social Security money that is not being done with it today? How would you've handled it differently than it's being handled today?

Mr. POMEROY. I would love to see this Congress commit itself on a course that ultimately has, takes this unified budget concept, where we complain that we've got to balance——

Chairman ARCHER. No, I'm not talking about the budget. You said the money is being used to pay other benefits, other General Treasury expenditures. And I think the record will show that that's what you said. What would you do with that money differently than what we're doing with it today?

Mr. POMEROY. But, Mr. Chairman, what essentially——

Chairman ARCHER. So that you could ensure the American people that that money is not being used to pay other General Treas-

ury expenses, what would you do with the extra money coming into the Social Security fund, over and above what's necessary to pay benefits?

Mr. POMEROY. Mr. Chairman, I think with a result of a comprehensive bipartisan study and discussion, we could end up with a proposal where we have——

Chairman ARCHER. Mr. Pomeroy, I'm asking you what you would do, not what would be the result of some big global study. What would you personally suggest that we do with the money?

Mr. POMEROY. Mr. Chairman, I'd like to see a portion of the Social Security Trust fund privately invested, probably not in an individual account structure, but that would be directly responsive to your question in terms of where——

Chairman ARCHER. OK.

Mr. POMEROY [continuing]. The proceeds would go other——

Chairman ARCHER. OK.

Mr. POMEROY [continuing]. Than to fund other functions of government in the way that they presently are doing.

Chairman ARCHER. So you would take the $70 billion of excess money expected to come in this year, over and above the cost of the benefits, and you would put what percent of that into private securities?

Mr. POMEROY. I don't have a fully developed proposal, Mr. Chairman, but I would associate myself this year with the positions taken by Members Bunning, Rangel, and Kennelly, in locking up that surplus, having it available so that when we move toward this bipartisan reform of Social Security, the solvency hole we have to dig out of isn't quite as deep.

Chairman ARCHER. OK, specifically what would you do with that extra money, that's the question? You said a while ago that you would put some of it into private securities. What would you do with the rest of it?

Mr. POMEROY. Some of the rest of it, Mr. Chairman, the bulk of it, the balance of it would be invested in treasuries similar to——

Chairman ARCHER. Well, so that's exactly what we're doing today.

Mr. POMEROY. Correct.

Chairman ARCHER. So you would continue with the bulk of it to do exactly what we're doing today which would not change anything except that you would take part of it and put it at risk in private securities as I understand it, is that correct?

Mr. POMEROY. Mr. Chairman, I'm not, I'm not entirely certain about whether we have disagreement or not here. What I'm trying to suggest to you is that the action I believe that this Congress should take this year is not to commit the surplus in any other way other than toward the saving of Social Security first goal. Bipartisan proposals from this Committee itself have advanced the same proposition.

As we move on to reform, Mr. Chairman, I believe a portion of the reform that I'll be inclined to support would involve a portion of private investment of the trust fund proceeds, while continuing, of course, to have a public investment mixed in there as well.

Chairman ARCHER. Well, there's such—I just hate for the public to get the wrong idea of what's happening with Social Security.

And I fear that your testimony puts it in a light that is not accurate. The money that's in the Social Security fund, from FICA taxes, is already committed totally to paying Social Security benefits. It has never been used for anything else. It will never be used for anything else. And to create any sort of impression on the part of the American people that it is being used to pay other government bills, outside of benefits, is just not true. It is not true.

Mr. POMEROY. Mr. Chairman——

Chairman ARCHER. It is being invested, as you said, in treasury securities which, when cashed in, can only be used to pay Social Security benefits. So we have already by law walled off the "surplus in the Social Security fund" so that it cannot be spent for anything other than Social Security benefits.

Now, it is true that some, like Senator Moynihan, want to go back to a pay-as-you-go basis to where we don't buildup any money in the trust fund, and don't wall it off, and secure the fact that it will be payable in the future for benefits. And strictly to have enough to pay the current benefits every year. Now we went through that back in the seventies, and it became a disaster for the fund.

Mr. POMEROY. I believe the Moynihan proposal is ill advised, Mr. Chairman, and I agree with you on that. What I was responding to specifically, with the remarks in my testimony, is that I believe the proposal advanced by Budget Chairman Kasich, and endorsed by the Speaker this morning, would take the budget surplus, establish individual accounts, making the money unavailable for comprehensive reform. That money represents Social Security surplus. It is not, therefore, available as we tackle the long-term solvency questions of Social Security.

Chairman ARCHER. Well, none of those programs, as I understand them, touch the bonds that Social Security holds that are committed to pay benefits—bonds which represent the surplus in Social Security. None of those programs touches any of those treasury bonds. They are kept intact. They are roped off. They can only be used to pay Social Security benefits. And, I'm sad to say, that an awful lot of American people get very misled by those, and on the right and the left, get misled by those who say, "Well, the money is gone, it's been spent on other treasury programs." And it hasn't, it's been invested in government bonds that are the same as Series EE bonds in the safest investment in the world. And can never be used for anything else, and we should continue to let the American people know that and I see——

Mr. POMEROY. Mr. Chairman——

Chairman ARCHER [continuing]. Both of you nodding, and I appreciate that. I've belabored this too long and I'm going to yield to Mr. Cardin for input.

Mr. CARDIN. Thank you, Mr. Chairman. Let me just follow up with Mr. Pomeroy for one moment. If I understood your testimony and what you have advocated on the Social Security surplus, under our current budget rules it would not be difficult for Congress to figure out a way to spend the projected surplus on other programs. That would be something that we could do, or we could use it as a tax cut. And if I understand your statement, you want to see that money held, not spent, not used for any specific purpose on the So-

cial Security system, but not used as a way to expand government spending or to reduce government revenues until we first have figured out a game plan to deal with the Social Security system. It's not that you feel that money will evaporate or that the Social Security money will evaporate. We have problems. We've all acknowledged it. Let's figure out a way to deal with Social Security before we talk about other priorities. Is that what——

Mr. POMEROY. That's precisely correct. It's absolutely precisely correct. The deeper the debt situation of this country, the more challenge we're going to have meeting those—retiring those Social Security bonds. We need to save the surplus for Social Security first, precisely as you suggested in our question.

Mr. CARDIN. And let me also compliment your work on private pensions and savings because one of the areas that we're going to need to take a look at, is how we can get more private savings and retirement in our community to deal with the retirement security of Americans. And, Mr. Pomeroy, you have brought forward many suggestions in that area that have been very helpful to this Committee, and I hope that you'll work with us in figuring out a way to deal with the Social Security system.

Mr. Chairman, I must tell you, I'm optimistic that we're going to deal with this issue because there's been acknowledgment by both the Democrats, the Republicans, the White House, and Congress, that we need to deal with Social Security. There's a long-term problem, there's no question about it. We need to deal with those issues. And I must tell you I agree with Senator Dole, that we're not going to get it done unless we figure out a mechanism in a bipartisan way to get it done. I think there's an acknowledgment of that.

I really do applaud President Clinton for bringing this issue up, for starting a national dialog, for getting people talking about the demographic changes in this country, and what we're going to need to do about income security in the future, and that we need to take a look at a variety of options.

I congratulate you, Mr. Chairman, this is a good proposal that you've brought forward. It brings us together in a bipartisan way.

But let me just caution everyone here. If we in Congress come up with a good proposal on which the White House goes in a different direction, or the White House moves on this issue in a positive way, and we don't join, then we're not going to have a bipartisan approach. So I would hope our efforts in the next several weeks focus on figuring out a way that we can get the White House, along with Congress, together in a bipartisan mechanism that will have the confidence of the American people and of our colleagues in Congress. We must have a mechanism that can work in a bipartisan way. Senator Dole is absolutely right. The only way that this is going to succeed if we move forward in a bipartisan way. And I know that the Democrats and Republicans in Congress want to do that. Sure, there'll be some of us who may politicize the issue, but the leadership here wants the decision done. And I'm confident that we can find a way to do it.

And I really do applaud you, Mr. Chairman, for bringing forward your suggestion. I just hope we can get forward a process that we all can sign off on soon that will use the expertise of the Members

of Congress, the three Members we have, Mr. Kolbe, Mr. Nadler, and Mr. Pomeroy, are certainly going to be very helpful to us in coming forward with those solutions. We need to figure out a way to do it. The sooner rather than later, and I just really wanted to compliment all three of you on your testimony.

Chairman ARCHER. I thank the gentleman from Maryland. I certainly agree that we've got to come together on a bipartisan basis to solve this long-range problem.

Mr. Shaw.

Mr. SHAW. Thank you, Mr. Chairman. I know two of our witnesses gave a very fine testimony that made reference to the remark of the President and, Earl, you quoted him almost exactly a moment ago in regard to any surplus and save Social Security first. When the President said that we all leaped to our feet on both sides of the aisle. All of us have some very strong feelings about that. But when you sit down and start to analyze what that statement really means, or what it did mean, then you begin to scratch your head, because the surplus is whatever you have left after you have gone through your budget. So that surplus isn't a fixed figure of something that's going to happen automatically. We've got to have constraints in spending so that we do come up with a surplus. But then you look at it further—and this is what bothers me most of all.

I think you gentleman may agree with me on this. In arriving at the surplus, and looking at the unified budget, the excess that the Chairman just referred to. The surplus that's in the Social Security system which this year is over $70 billion may actually be used to show that we have a surplus. When, in fact, if you use truth in accounting and take out the Social Security money, we are in the red for over $70 billion.

In my opinion, and I feel very strongly about this, if we are serious about using our surplus to save Social Security, then we must be very careful in defining that surplus, and take Social Security out of the equation. As the Chairman just said, this money is in there. It is committed. It's fully committed. And it should not be used to show a false figure. I think the Republicans and the Democrats and the President need to come together and come forth with a budget that has truth in accounting, which shows that we aren't near a surplus condition at this time. We should wall off Social Security, not only by saying that it's going to be there for everybody, but agree that the Congress and the President cannot use the surplus in Social Security to support new spending plans. What do you all think about that?

Mr. NADLER. Well, I have a couple of comments on that. First of all, how you define the surplus. Under the current accounting system we've been using since 1967, Social Security is part of the unified budget, as is the transportation trust funds, and everything else.

Mr. SHAW. I will say, though, that some of us thought we had taken it out of the budget a few years ago——

Mr. NADLER. Well——

Mr. SHAW [continuing]. And we voted on that but evidently——

Mr. NADLER. Apparently not.

Mr. SHAW. We didn't cross enough "t's" there.

Mr. NADLER. In any event, that's the way the accounting is done now. I think we ought to solve the Social Security problem. I think they're really two questions. One, solve the Social Security problem. Until we do that, which should be in the next Congress, wall off the current surplus from anything else, so that if we need it, it's available for that. But I don't think we mean to say that Congress can spend no money of the surplus on anything else except Social Security. We should figure out what we're doing about Social Security, and then look at the other question. If you talk about truth in accounting, which is a different question, what does your budget really mean. Should you keep Social Security in there?

I agree with you to the following extent: Social Security should not be in the budget, either now when it's masking a deficit by having a surplus, or 20 years from now when it may be the opposite. But to have a really accurate budget, you have to create a capital budget like any company, any State or local government.

Mr. SHAW. We don't have capital. We do not have capital.

Mr. NADLER. Well, I know that but if you want an accurate budget, we should have to change it to have a capital budget.

Mr. POMEROY. We have a vote imminent, so I will agree with you. I agree with every word you said.

Mr. SHAW. Thank you very much.

Chairman ARCHER. Gentleman, thank you, we have a vote on now and only a couple of minutes to get over there so I think it'd be best for us to excuse you, and we'll get to the next panel when we get back after the vote.

Mr. NADLER. Thank you.

Chairman ARCHER. Thank you very much.

[Recess.]

Mrs. JOHNSON [presiding]. The hearing will resume. Welcome back, Wendell, from the other side of the dias here.

Let us start with Mr. Schultz, a member of the board of directors of the American Association of Retired Persons.

Mr. Schultz.

STATEMENT OF OTTO SCHULTZ, MEMBER, BOARD OF DIRECTORS, AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. SCHULTZ. Good afternoon. I'm Otto Schultz, a member of AARP's board of directors. For 2 years AARP has been calling on Congress and the administration to engage the American people in a national dialog regarding Social Security and the options to ensure its long-term financing.

AARP believes this is a critical first step toward making changes to strengthen Social Security. Social Security has provided essential income protection for generations of American workers and their families. It replaces a portion of the wages lost when a breadwinner retires, becomes disabled, or dies. We must find a way to maintain this firm income foundation for tomorrow's beneficiaries.

That is why AARP has launched its own nationwide effort to encourage all Americans to discuss Social Security and its future, and that is why we accepted the President's invitation to cohost a series of national forums on the issue. Social Security faces a long-term challenge, but it is not a crisis. Without any changes, the program can continue paying full benefits until 2029. After that, incoming

revenue will cover three out of every four benefit dollars currently promised.

A dialog with the American people about Social Security is a necessary precursor to enacting legislation in the next few years that addresses the program's long-term financial condition. A national dialog can help lay the groundwork for the legislative process and personalize the stake all Americans have in the future of Social Security.

This does not mean we should delay action into the distant future. If we enact legislation sooner rather than later, the changes will be more modest and will give those affected more opportunity to adjust their plans.

The National Dialogue on Social Security Act outlines a two-pronged approach for the discussion. One part would take place electronically, and the other through local forums. All Members of Congress are encouraged to engage their constituents via electronic methods. Forums sponsored by private, nonpartisan organizations would take place in geographically representative locations throughout the country.

In our written testimony, we describe some goals regarding the local events. We believe every effort must be made to ensure that Americans from all walks of life can and do attend, that varying viewpoints are represented in a balanced fashion, and that no organization is excluded because of limited finances. The results of this dialog would be presented to a 36-member National Dialogue Council. It would represent different age groups and different points of view.

The legislation also creates an eight-member bipartisan panel to design long-term Social Security reform. Appointed by all the congressional leaders and the administration, the panel is charged with reporting by next February 1 a solvency proposal acceptable to six of its eight members. In the last year or so, many solvency proposals have been put forth. AARP welcomes this exchange of ideas. All options should be put on the table, and they deserve to be thoroughly examined with regard to their impact on individuals and on the program.

While there are many factors that go into making this bipartisan panel successful, three are particularly important. First, in order to ensure consideration of the widest range of options, we believe panel members should be selected based on their knowledge, abilities, and openmindedness, not their adherence to particular ideas. We believe it is important that no member come to the panel with preconditions or other limits.

Second, whether through formal or informal means, it is critical that the work of this panel yield a product that will be useful to the congressional Committees of jurisdiction—the stewards of the Social Security Program. The challenge for the panel is to develop a framework or a set of recommendations that reflect our collective best thinking—not just options or bold proposals—with which the Congress and the administration can work and which will ultimately lead to legislation.

Third, and most importantly, the panel must, as a part of its explicit role, involve the American people. The American people have

to be involved. They need to understand the problems, the trade-offs, and how they will be affected in order to support the solution.

Mr. Chairman, I would be glad to answer any questions that you or other Members of the Committee may have.

Thank you.

[The prepared statement follows:]

Statement of Otto Schultz, Member, Board of Directors, American Association of Retired Persons

AARP appreciates the opportunity to present its views on H.R. 3546, the National Dialogue on Social Security Act of 1998. For two years, the Association has been calling upon Congress and the President to engage in a dialogue with the American people regarding the Social Security program and the options that would strengthen its long-term financing. Social Security has provided essential income protection for generations of American workers and their families. It replaces a portion of wages lost when a breadwinner retires, becomes disabled, or dies. Given Social Security's critical role in providing income security, we must find a way to maintain that firm economic foundation for tomorrow's beneficiaries.

A dialogue with the American people about Social Security is a necessary precursor to enacting legislation in the next few years that addresses the program's long-term financial condition. A national dialogue can help lay the groundwork for the legislative process and personalize the stake all Americans have in the future of Social Security. This does not mean we should delay action into the distant future. If we enact legislation sooner rather than later, the changes will be more modest, and we will give those affected more opportunity to adjust their plans.

Social Security faces a long-term challenge, but it is not a crisis. The current debate stands in stark contrast to the debate which led to the 1983 Social Security Amendments when the trust funds could finance benefits for only a short time. The Social Security trustees report that without a single change in current law, the program can continue paying full benefits on time until 2029. After that, incoming revenue will finance 3 out of 4 benefit dollars.

In order for this dialogue to be instructive, it must begin from a solid base of information about Social Security and its financial condition. Wherever possible the dialogue should allow the American people to examine options and work through the trade-offs involved. But this dialogue should not focus on Social Security alone. The broader framework of retirement income security, including the role of individuals, employers, and government programs, must all be part of this debate. We believe the dialogue should stress Social Security's role within the overall retirement income framework—that Social Security is the solid base of retirement income to which workers can and should add pensions and individual savings. Such a comprehensive approach will send a strong signal to today's workers about the need to save for their own retirement as a supplement to Social Security.

I. The National Dialogue on Social Security

H.R. 3546 would create a National Dialogue Council (hereafter referred to as "the council") composed of 36 representatives, one-quarter selected by the Speaker of the House, one-quarter by the Majority Leader of the Senate, and half by the president. The legislation identifies 18 organizations that will submit 3 nominees each for the 36 positions on the council. The organizations include representatives of older Americans, younger Americans, labor, business as well as other groups and think tanks involved in the Social Security issue. One-third of the council members would be born after 1961, another third would be born from 1946 through 1961, and the remainder would be born before 1946. Without commenting on specific organizations, casting a broad net is a positive feature.

Since the legislation specifies a bipartisan, bicameral appointment procedure for appointing the solvency panel, we believe a similar approach should be used to determine the members of the dialogue council. (The allocation of "slots" that was used in the appointment of the Medicare Commission is an example.) Involving the congressional leadership of both parties in this process will help ensure broad, bipartisan participation by our elected officials in this very important phase of the national discussion.

The national dialogue would have two components: electronic discussions sponsored by Members of Congress and local conferences convened by nonpartisan, private organizations in geographically representative areas throughout the nation. The results would be forwarded to a bipartisan panel that will recommend a solvency plan for Social Security.

Sponsorship of local forums by private, nonpartisan organizations would reduce federal costs. It could lead, however, to unanticipated problems unless the extent of a group's involvement and the purpose of the forums are spelled out before the events begin. Both are important in order to ensure that all viewpoints are represented. It is critical that the dialogue maintain the appropriate balance of ideas and points of view. We must also ensure that organizations are not excluded simply because of limited finances.

We hope event organizers will schedule activities at a time convenient to working Americans and their families and at convenient locations that are accessible by public transportation. This will encourage attendance by a more representative group of people.

These considerations are particularly important since there will be a limited number of local forums, whereas electronic discussions will take place within many congressional districts. Indeed, AARP believes that the face-to-face interaction in local forums should be strongly encouraged. While a growing number of Americans are comfortable in a "chat room" and navigating the electronic highway, many others do not own or have access to a computer. Their voices deserve to be heard in the dialogue as well.

AARP concurs with H.R. 3546's intent to facilitate a national dialogue on Social Security. In fact, we are engaged in our own nationwide effort to advance the current debate by fostering a constructive dialogue. We plan to conduct citizen forums, distribute voter education guides and other education materials, and engage the public. We will attempt to bring together the viewpoints of all age groups—from our current members to our future members—to help ensure that the long-term needs and interests of each group are addressed. We would be willing to share the results of our activities when they become available. The Association believes that such a dialogue is critical, especially when dealing with programs such as Social Security that impact virtually every American. Proposals to modify Social Security cannot simply spring from inside-the-beltway. Without the support and input of the American public, any reform effort is bound to fail. The public must have the opportunity to hear about the proposals and work through potential trade-offs.

II. The Bipartisan Panel to Design Long-Term Social Security Reform

The legislation would create an eight member commission appointed by the bipartisan congressional leaders and the President. By March 31, 1999, the Bipartisan Panel to Design Long-term Social Security Reform (the "panel") would report out a solvency package acceptable to 6 of its 8 members. Their findings would be forwarded to the President, as well as the Senate Committee on Finance and the House Committee on Ways and Means.

While there are many factors that go into making an initiative like this successful, three are particularly important. Obviously the first is the composition of the panel itself, including the staff leadership. In order to ensure that the Social Security panel considers the widest range of options, we believe members should be selected based on their knowledge, abilities, and open-mindedness, not their adherence to particular ideas. We believe it is important that no member come to the panel with pre-conditions or other limits.

Second, whether through formal or informal means, it is critical that the work of this panel yield a product that will be useful to the congressional committees of jurisdiction—the stewards of the Social Security program. Ultimately, it is the committees and the Congress as a whole which bear the responsibility. The challenge for the panel is to develop a framework or set of recommendations that reflect our collective best thinking—not just options or "bold proposals"—with which the Congress and the Administration can work and which will ultimately lead to legislation. No panel, regardless of how "blue ribbon" it may be, can or should provide cover or a "fig leaf" on a matter of this importance.

Third, and perhaps most importantly, the panel must, as part of its explicit role, involve the American people. If there is one thing that is clear from earlier major efforts to reform health care and Social Security, it is that the American people have to be involved—they need to understand the problems, the tradeoffs, and how they will be affected. AARP does not suggest that the panel can do this alone. But, if the American people don't understand the problems, and the basic tradeoffs, they won't support the solutions.

A commission has been used before to resolve Social Security's financing problems. In late December 1981, the 15 member National Commission on Social Security Reform, subsequently called the "Greenspan Commission," was asked to analyze the factors threatening the program's long-term solvency and make recommendations to the President and Congress. Although the program faced a serious financing

crisis, the Greenspan Commission members could not reach consensus on a solvency package. However, the Greenspan Commission's deliberations provided a basis for the solution that was eventually developed by key congressional leaders and the Administration—the ultimate decision-makers in the process. These decision-makers resolved their differences, and that discussion led to the enactment of the Social Security Amendments of 1983.

The situation today is quite different than it was in the 1981–1983 period, largely because Social Security does not face an immediate threat. While in 1983 the Social Security Trustees projected the system could pay full benefits for only 6 months, today that projection is for 31 years. This time-frame allows for a more thorough dialogue. In order to ensure that both the Social Security panel and the recently launched Medicare Commission can devote as much time as feasible to their respective tasks, we would recommend that an individual serve on only one of these panels.

In the last few years or so, a considerable number of solvency proposals have been suggested, including the 3 approaches outlined by the Social Security Advisory Council. AARP is hopeful that the bipartisan panel will thoroughly explore and carefully analyze a broad range of options. This analysis should examine the impact of each proposal on individuals, as well as on the program. The panel should also carefully review the interaction between the different components of any proposal and consider the impact on other parts (e.g., pensions, savings) of the retirement income framework.

III. CONCLUSION

The discussion regarding the future of Social Security, our nation's most popular program, is moving gradually outside the "beltway" and into the living rooms of America. This is encouraging. Americans continue to value a program that has directly or indirectly touched of all us, and they recognize its contribution to the economic well being of this nation. Changes will be needed, as they have been in the past, to ensure that future generations continue receiving this secure and predictable base of income security. We must look at the choices available and confront the face of retirement in the 21st century. While some contend that we can no longer afford Social Security, AARP continues to believe that we cannot afford to be without Social Security.

Chairman ARCHER [presiding]. Thank you, Mr. Schultz. I appreciate your coming and appreciate your patience in waiting through the other panels.

Mr. Primus is no stranger to the Ways and Means Committee. He has been with us for many, many years, and we're glad to have you back before the Committee and we welcome your testimony.

STATEMENT OF WENDELL E. PRIMUS, DIRECTOR OF INCOME SECURITY, CENTER ON BUDGET AND POLICY PRIORITIES

Mr. PRIMUS. Thank you, Mr. Chairman, and Members of the Committee. I appreciate your invitation to testify on H.R. 3546.

Social Security reform can best be achieved by educating the public about issues facing the program, involving them in the reform process through public forums, and then developing a bipartisan agreement through the regular legislative process. I applaud the goals of this bill.

However, the bill would create a council that would duplicate initiatives already underway, rely on the Internet as a key means of communication with the American public, a tool that will exclude many low and moderate income households, and establish a panel to conduct work that could best be carried out by this Committee.

I have great respect for this Committee, its expertise and role in the legislative process. This Committee is in the best position to assist the Congress and the administration in reaching a political

consensus and a bipartisan agreement to restore the solvency of Social Security. The creation of yet another advisory panel seems unnecessary.

The circumstances we confront today are substantially different from those in 1981, when the Senate voted down by a 96 to 0 vote a plan by the administration to address Social Security financing. The regular process had broken down. I would urge you to allow the process outlined by the President and the regular legislative procedures work before resorting to the creation of a new panel.

I would hope and presume that you, Mr. Chairman, and the Ranking Member will engage the Committee in a series of events, such as hearings, seminars, and retreats over the next year. You are the key decisionmakers.

Social Security is one of the Nation's most important programs. Census data show that half of the population aged 65 and older would be poor if not for the benefits of government programs. After counting government benefits, the poverty rate among the elderly drops to 9.2 percent. These same data show that government benefit programs lifted 13 million elderly out of poverty in 1996, and out of this 13 million, 11.7 were lifted out by the Social Security Program.

Social Security also plays an important role in the economic well-being of the nonelderly. Some 3.5 million nonelderly adults and 800,000 children were lifted out of poverty by Social Security in 1996.

In the opinion of myself and many other economists, the use of the budget surplus that would serve best both the Social Security Program and the U.S. economy is to reduce the national debt. This has four effects. First, if the projected surplus in the unified budget is used to pay down debt, national savings and investment will rise and produce a somewhat larger economy over time. A larger economy would bring in more payroll tax revenue without raising the payroll tax rate.

Second, using the surplus to reduce the debt will drive down Federal interest payments and free up funds as the baby boom generation retires. And third, under CBO projections, the budget surplus is temporary. If the surplus is preserved, the point at which deficits return and the debt begins to rise can be delayed. Social Security and other programs will not need to be reduced as much in the long term, nor will tax burdens on future generations need be as great.

And, finally, shrinking the national debt will give us more room to borrow in the future, when the baby boom generation retires, if that should prove necessary.

President Clinton has called on the Nation to save Social Security first. The President has asked Congress not to spend the projected budget surpluses until Social Security is restored to long-term balance. Given the Nation's demographics and its low savings rate, that is a very wise and prudent course of action.

Social Security is only one part of our retirement security system. The fact that only 50 percent of individuals reaching retirement today have a pension is also a matter of concern. There is a need to bolster other aspects of our retirement security system as well.

The establishment of individual accounts is, however, a fundamental change and should be considered in the overall context of eliminating the long-term imbalance that currently exists between income and benefits in the Social Security Program. Because Social Security is so important to the lives of low and moderate income families, changes such as the establishment of individual accounts, or other efforts to strengthen individual savings or pensions, should be considered during or after the long-term funding imbalance in the Social Security Program has been eliminated.

If individual accounts are established without addressing the long-term imbalance in the Social Security Program, the nature of the Social Security debate could shift from restoring solvency to bolstering those accounts. Before any steps are taken to create these individual accounts or make other structural changes in other aspects of our retirement system, a bipartisan agreement should be put in place to restore and maintain long-term solvency in the Social Security Program.

Mr. Chairman, in conclusion, I would urge that you follow the regular order and the process outlined by President Clinton in reaching a bipartisan agreement on Social Security, and Members of this Committee can assist greatly in reaching that consensus. Social Security is our most important program, and because it is so important, we should save Social Security first.

I want to thank you again for the opportunity to testify on this important issue, and I look forward to working with this Committee as you move forward.

[The prepared statement follows:]

Statement of Wendell E. Primus, Director of Income Security, Center on Budget and Policy Priorities

Social Security reform can best be achieved by educating the public about issues facing the program, involving them in the reform process through public forums, and then developing a bipartisan agreement through the regular legislative process. While the goals of this bill are consistent with that, the process the bill would employ would create a council that would duplicate initiatives currently underway, rely on the Internet as a key means of communication with constituents—a tool that may exclude low- and moderate-income households—and develop a commission to conduct work that could best be carried out by this Committee.

Members of this Committee already have at their disposal the means for establishing dialogues, including the legislative hearing process and town hall meetings within your districts. Beyond hearing from your own districts, there are two bipartisan national dialogues underway. Bipartisan regional hearings are being organized at the request of President Clinton by the American Association of Retired Persons and the Concord Coalition. Additionally, the Pew Charitable Trust is sponsoring nonpartisan hearings through its Americans Discuss Social Security initiative. Unlike the Internet, these approaches to engaging the public in the dialogue will create access for individuals of all income levels to participate.

This Committee is also in the best position to put together a bipartisan agreement to restore the solvency of Social Security. Although it is difficult to argue strongly against forming a panel of experts, the creation of yet another advisory panel does not appear necessary. This Committee is in the best position to access research and information available or being generated on Social Security and to hear first-hand from the American public. This is the regular legislative process that should be used to address Social Security.

If the Committee proceeds with the creation of the Dialogue Council and Panel, I would recommend some changes.

There are three additional points that need to be made concerning the importance of Social Security and how best to preserve this system.

1. Social Security plays a crucial role in eliminating poverty among the elderly.

2. Congress can substantially enhance the long-term solvency of Social Security by preserving the budget surplus and using these funds to pay down the debt.

3. We should adhere to the President's call to "save Social Security first."

Mr. Chairmen and members of the Committee on Ways and Means, I appreciate your invitation to testify on H.R. 3546, the National Dialogue on Social Security Act of 1998. My name is Wendell Primus, and I am Director of Income Security at the Center on Budget and Policy Priorities. The Center is a nonpartisan, nonprofit policy organization that conducts research and analysis on a wide range of issues affecting low- and moderate-income families. We are primarily funded by foundations and receive no federal funding.

TITLE I—NATIONAL DIALOGUE ON SOCIAL SECURITY

Two important steps in achieving Social Security reform are to provide the public with education on issues facing the program and to obtain their views through public discussions, debates, and hearings. The goals of Title I, to promote a national dialogue and provide a forum for the American people to learn more about the program, are consistent with this view. I applaud these goals. However, this title would create a council that would duplicate other initiatives currently underway. The title also would instruct members of the Committee to develop ongoing systems of communication with constituency groups, a process in which I am sure every member is already fully engaged. Additionally, members would be required to rely on the Internet as a key tool for educating the public and means for communicating with constituents. This approach may exclude many low- and moderate-income individuals for whom Social Security is an essential program.

The creation of a 36-member Dialogue Council adds a layer between members of this Committee and the public when what is needed is direct access to the public and individuals with expertise on Social Security. I have great respect for this Committee, its expertise and role in the legislative process. Thus, I really believe that members of this Committee are in the best position to gather and weigh information on Social Security reform, as well as to help stimulate discussions and debate on the issue.

You have at your disposal existing mechanisms for creating dialogues in which members of this Committee can participate directly and become informed on a first-hand basis. One is through the Congressional hearing process. Your position on this powerful Committee gives you access to the most knowledgeable individuals on Social Security.

In addition to this system for holding hearings, you have ongoing access to the general public residing in your districts. I know many, if not all, of you have been holding town-hall meetings and similar sessions with your constituents to learn their views and concerns. I am sure Social Security has been raised as an issue on numerous occasions. Organizing town hall meetings in your districts that specifically address Social Security would be an excellent way for you to become that much more knowledgeable about aspects of the program that are of particular concern to the people you represent. It seems unnecessary to pass a law instructing members to perform activities they currently conduct.

Beyond hearing from your own districts, there are two bipartisan national dialogues underway or in the finally planning stages. President Clinton called for four regional meetings that would engage the general public in a discussion on Social Security. They are being organized by the American Association of Retired Persons and the Concord Coalition. These are organizations with differing views on how best to reform Social Security. Consequently, their joint effort to bring people together should lead to a full and open debate on the issues.

Similarly, Americans Discuss Social Security is holding a series of town meetings and conferences, as well as developing strategies to stimulate dialogues on college campuses. This initiative is nonpartisan and fully funded by the Pew Charitable Trusts. The goal is to educate the public on Social Security. As recently as March 21, 1998, the organizers held a 10-city teleconference. Speaking time was allotted for both President Clinton and Representative Nick Smith.

In light of work being done by these organizations, I do not think there is a need for the Dialogue Council. If, however, this Committee chooses to pursue it, I would suggest that the proposed method for creating this body is problematic. Eighteen private organizations would be vested with the right to nominate Council members. Controversy will undoubtedly be created about the process for selecting the 18 organizations and reasons why others were not included. For example, three important organizations are not mentioned: the National Committee to Preserve Social Security and Medicare; the National Council of Senior Citizens and the 2030 Center. While most of us would agree that these organizations should take part in the debate, it is less clear why they should be given the authority to designate members of the Dialogue Council. Furthermore, a council comprised of representatives of such

a large number of organizations that hold very diverse opinions about Social Security could easily get bogged down. A number of these organizations have already stated diametrically opposed positions on Social Security from which they will not budge.

Title I also proposes to establish an Internet Advisory Board and Dialogue Coordinator to assist members in establishing a system of communications in their districts. The Internet, while widely available to many of us, is primarily available to those who have access to computers at work or at home. Many of the people most in need of Social Security have few resources available for accessing the Internet. Consequently, they could easily be left out of the education and discussion process if the Internet is relied upon as a primary vehicle for communication.

Research cited in several recent news article indicates that the ownership of personal computers is correlated with income. The March 10, 1998 issue of the "Wall Street Journal" stated that 80 percent of households with income over $100,000 have personal computers, while only 25 percent of households with incomes under $30,000 have them. (This research was conducted by Computer Intelligence.) The *New York Times* described research by International Data Corporation in its March 8, 1998 issue. According to this study, the average income of Internet users is $70,400. Thus, communication through the Internet can miss many households this Committee should reach. On the other hand, the approaches I previously discussed create opportunities for people of various means to have access to individuals who are discussing and explaining the issues.

TITLE II—BIPARTISAN PANEL TO DESIGN LONG-RANGE SOCIAL SECURITY REFORM

Title II of the bill would create a third body—the Bipartisan Panel to Design Long-Range Social Security Reform—that would be given responsibility for designing recommendations for reform. The creation of another advisory panel does not appear necessary.

The National Commission on Social Security Reform was appointed under substantially different circumstances. The regular legislative process had gone awry. In early 1981, both the ranking member of this Committee and the Social Security Subcommittee Chairman had introduced bills to restore the solvency of the Social Security program. Congressman Pickle constantly urged the Administration to present a Social Security plan. In May 1981, the Administration did produce a plan, but it was rejected overwhelmingly by a 96–0 vote through a Senate resolution. The regular process had broken down, and a Commission was needed to restore short-term solvency to the Social Security program.

The circumstances we confront today are different from those in 1981. There is no reason the regular legislative process should not work. And while it is important to begin taking action now to address the financial status of Social Security, there is time to work through this process to achieve a bipartisan solution. I would like to think that the members of this Committee can reach a bipartisan agreement on eliminating the long-term imbalance in Social Security. This Committee is composed of bright, capable people. The first votes on Social Security will be made by this body. You are the equivalent of a board of directors who will have to determine how to reform the program. Rather than distance yourself from the process, I would hope you and the ranking member would engage the Committee in a series of events such as hearings, seminars, and retreats. You are in the best position to gain access to research and other information that is being generated on Social Security and to hear in person from the American public. I am confident that you can do this without creating a panel.

In addition to the remarks I have shared on H.R. 3546, there are three points I would like to make concerning the importance of Social Security and how to proceed on restoring solvency to it.

1. Social Security plays a crucial role in eliminating poverty among the elderly.
2. Congress can enhance the long-term solvency of Social Security by preserving the budget surplus and using these funds to pay down the debt.
3. We should adhere to the President's call to "save Social Security first."

IMPORTANCE OF SOCIAL SECURITY TO PEOPLE'S LIVES

Social Security is one of the most important programs affecting your constituents. That this is so is shown by recent Census data on income from earnings, Social Security and other government programs. These data show how many elderly people (as well as people of other ages) are below the poverty line before receipt of government benefits and how many remain poor after receipt of various types of benefits.

These Census data show that of all age groups in the population, it is the elderly who depend on government programs to the greatest degree. Half of the population

aged 65 and older—50.1 percent in 1996—would be poor if not for the benefits of government programs. After counting government benefits, the poverty rate among elderly people dropped to 9.2 percent in 1996.

Social Security is the primary reason that government benefit programs have such a large impact in reducing poverty among the elderly.

• The Census data show that government benefit programs lifted 13 million elderly people out of poverty in 1996. Of this 13 million, some 11.7 million—or nine of every ten elderly people lifted out of poverty by government programs—were lifted out by Social Security.

Poverty rates have dropped consistently over the past two decades among people 65 and older, largely because of the increased effect of Social Security.

• In each year since 1979 for which data are available, about half of the elderly population was poor before counting government benefits.

• After counting social insurance benefits (mainly Social Security) but not other government benefits, the poverty rate among elderly people was 17.4 percent in 1979. By 1996, the elderly poverty rate after social insurance benefits are counted had dropped to 12.3 percent. In other words, the proportion of elderly people lifted out of poverty by Social Security has increased in recent decades.

• In 1979, two-thirds of the elderly people who would otherwise be poor—68 percent—were lifted from poverty by social insurance programs, mainly Social Security. In 1996, three-quarters of those who would otherwise be poor—75.6 percent—were moved out of poverty by these programs.

Social Security also is important to low-income elderly people because it contributes a large portion of their income. In 1995, Social Security made up two-thirds of the total incomes of elderly people who were poor under the official measure of poverty.

Social Security plays an important role in the economic well-being of the non-elderly, too. Some 3.5 million non-elderly adults and 800,000 children were lifted out of poverty by Social Security in 1996.

Preserving the Federal Budget Surplus is the best Way to Strengthen Our Retirement System

Given the significance of Social Security to the lives of so many people, the budget surplus should be used in a manner that helps to address the long-term solvency of the program. The use of the surplus that would best serve both Social Security and the U.S. economy is to reduce the national debt.

• If the projected surplus in the unified budget is used to pay down the debt, national saving and investment should rise and produce a somewhat larger economy over time; a larger economy would bring in more Social Security payroll tax revenue without raising the payroll tax rate. A bigger economy also would enable us better to afford modifications in the Social Security benefit and/or revenue structure needed to restore the system to long-term balance.

• Using the surplus to reduce the debt will drive down federal interest payments. Funds that would otherwise have been spent on interest will be available to meet future fiscal policy challenges of the baby boom generation as it retires and requires Social Security and Medicare benefits.

• The budget surplus is temporary. If the surplus is preserved, the point at which deficits return and the debt begins to rise can be delayed. Social Security and other programs will not need to be reduced as much in the long term nor will tax burdens on future generations need to be as great as they would if the surplus were not used to bring down the debt now. If the surplus is used for other purposes, deficits will return sooner and rise to higher levels.

• Shrinking the national debt will give us more room to borrow in the future when the baby boom generation retires, if that should prove necessary.

If a portion of the surplus is used now to cut taxes or increase government expenditures, some of the surplus will be used for current consumption rather than investment that can boost economic growth and income. The national debt and the interest paid on it will be larger than they would if the surplus were preserved. Higher interest payments will mean fewer resources for meeting other needs. Deficits will return earlier and the debt will begin to rise sooner if the surplus is forfeited, ultimately creating greater pressure to cut programs or raise taxes. A large national debt will place the government in a weaker economic position to borrow in the future if necessary to meet pressing needs when the baby boomers retire.

There are important national priorities that need attention. Preserving the surplus does not imply ignoring those needs. It means that those national priorities should be considered under the regular federal budgeting rules. If increased expend-

itures are required to address a national need, other expenditures should be lowered or taxes increased to finance those expenditures, as the budget rules require.

"SAVE SOCIAL SECURITY FIRST"

President Clinton has called on the nation to "save Social Security first." The President has asked Congress not to spend the projected budget surpluses until Social Security is restored to long-term balance. His call is designed to ensure that if Congress and the Administration decide to use some or all of the surplus to shore up Social Security, that option has not been foreclosed by Congress having already used the surplus for other purposes. And as I argued earlier, preserving the surplus has important economic benefits.

Social Security is an important component of income for many individuals and families when reaching retirement age. That only 50 percent of individuals reaching retirement have a pension is also a matter of concern. There is a need to bolster those aspects of retirement security as well.

The establishment of individual accounts is, however, a fundamental change and should be considered in the overall context of eliminating the long-term imbalance that currently exists between income and benefits in the Social Security program. Because Social Security is so important to the lives of low- and moderate-income families, changes such as the establishment of individual accounts or other efforts to strengthen individual savings or the pensions should be considered while, or after, the long-term funding imbalance in the Social Security program has been eliminated.

Individual accounts are established without addressing this long-term imbalance, the nature of the debate could shift from restoring solvency to bolstering these accounts. Before (or at the same time) any steps are taken to create individual accounts or make other structural changes in Social Security, a bipartisan agreement should be put in place to restore long-term solvency.

Some specific proposals have been developed by members of Congress that would use the surplus to establish individual accounts. Mr. Kasich recently introduced his bill, and Mr. Roth intends to introduce a similar measure in the near future. As noted here consideration of such proposals before considering overall Social Security reform would be premature and could be counter-productive. An assessment of those proposals is beyond the scope of this testimony, but I would note that we have examined them and have identified a number of concerns with them.

CONCLUSION

Mr. Chairman, rather than creating a Council and Commission, I would urge that you follow the regular order and the process already underway to reach a bipartisan agreement on Social Security. A Council and Commission have the potential of being counter-productive. These entities may distance you from the process of hearing from the public and gathering information on Social Security. They may distract from the normal legislative process. Requiring that six of the eight members of the Panel to reach agreement including both the co-chairs, may not be possible.

Instead, you and the Members of the Committee can assist greatly in reaching consensus by participating directly in the national dialogues that already are underway. In addition, through the Committee process (bipartisan hearings, retreats, and seminars), you can educate yourselves first-hand on the crucial issues facing Social Security and the impact that various proposals would have upon working and retired individuals and families.

Social Security is one of the most important programs affecting the American public. It lifts millions of people out of poverty each year. Given its importance to the economic well-being of so many, we need to "save Social Security first" by using the surplus to pay down the debt and by restoring long-term actuarial balance before any actions are taken prematurely to restructure the program.

Chairman ARCHER. Thank you, Mr. Primus. Our last witness today on the final panel is Bob Myers, and for the benefit of the Committee, let me just briefly tell you that this gentleman has probably more knowledge in his head about Social Security than any other human being in the country. He was one of the original actuaries when Social Security was first established back in the thirties, and has been a great source of expertise for this Commit-

tee over the years. So, Bob, we're delighted to have you back again with us, and we would be pleased to hear your testimony.

STATEMENT OF ROBERT J. MYERS, FORMER CHIEF ACTUARY AND FORMER DEPUTY COMMISSIONER, SOCIAL SECURITY ADMINISTRATION; AND FORMER EXECUTIVE DIRECTOR, NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

Mr. MYERS. Thank you very much for those very kind words, Mr. Chairman. It's always a great honor and pleasure to testify before this distinguished Committee.

The two initiatives proposed in the bill, the National Dialogue on Social Security and a Bipartisan Panel to Design Long-Range Social Security Reform, will be extremely helpful, if not even essential, to solving the likely long-range financing problems of the Social Security Program.

Mr. Chairman, as you noticed, I used the term "the likely long-range problem." Certainly, the intermediate cost estimate shows that in the year 2029 the trust funds will be exhausted and that thereafter the revenues coming in can support only two-thirds to three-fourths of the benefit costs.

Now, as you well know, and as you pointed out so eloquently, estimates are subject to variation. There is a low-cost estimate that shows there's no problem in the next 75 years, or even beyond. It's based on assumptions which are reasonable, but in my opinion it's very unlikely that they will all materialize. Likewise, there's a high-cost estimate that shows an even worse picture than the intermediate estimate.

Nonetheless, despite the fact that there might not be a problem, I think it's very unlikely, and I think it is only prudent to take action now on the basis of the intermediate cost estimate, which, hopefully, is the best estimate for the future.

The first initiative is to establish a national dialog through regional conferences and national Internet exchanges. This is most certainly an excellent step, and the plans therefor in the bill are well designed, including the procedures for obtaining the cooperation of national organizations so as to assure balance and widespread participation. This procedure will have two advantages. First, it will enable policymakers to know what the views of the public are on this very important and complicated subject, and second, it's a good opportunity to educate people about all the complexities involved.

Although the use of the Internet for dialog will produce valuable results, it should be kept in mind that those who use the Internet are a select class of citizens, and their views are not necessarily the same as those of the citizenry at large.

The second initiative is to establish a panel which will operate in much the same way as did the Greenspan Commission, which Senator Dole described very eloquently this morning. The Greenspan Commission did have large elements of cooperation, and there was a reasonable consensus of views, not quite on every subject. But I think on the whole, as Senator Dole said, the results of the Greenspan Commission have been quite good. Certainly, in the past 15 years, there have been no financial crises in the way some

people predicted that there would be after the 1983 act was enacted.

Of course, it's quite true, as the distinguished Chairman has said, that the actuarial estimates made for the long range in 1983, as viewed now, apparently, were too optimistic. However, in the first 15 years, the actuarial estimates were quite closely on target. But there are signs of deterioration, and I certainly think that consideration of the present intermediate estimates will be necessary. Hopefully, they will be closer to the mark than the estimates made in 1983, which I think were not made with a political approach, but rather they were the best estimates that the actuaries could make, and it just turned out that they were too low.

There are two important differences between the panel and the Greenspan Commission—and both, I think, are advantages to the proposed panel. For one thing, the panel will be truly, equally bipartisan, with completely equal representation of the two political parties, whereas the Greenspan Commission did have a weighting a bit toward one party, namely the Republicans. There were eight Republican and seven Democratic Members, and two of the Democratic Members were named by President Reagan. Nonetheless, I think that Chairman Greenspan ran the Commission in a very fair and equitable way, and in the end there was good cooperation between all parties involved.

The second difference is that the mandate in the bill for the panel is to come forth with a single set of recommendations. I think this is highly desirable if it could be done. The Greenspan Commission almost had a complete concurrence. Many of the provisions everybody agreed on, even though they didn't necessarily like them all, and there were left two alternatives at the end. But it sought to do this, although there was no mandate to do it.

So, in summary, Mr. Chairman, I think the bill that you have developed along with two other Members of the House is an excellent beginning to solving this problem. I think that it probably is essential to do this, and I most certainly hope that the bill will be enacted, more or less in the form that you have introduced it.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Robert J. Myers, Former Chief Actuary and Former Deputy Commissioner, Social Security Administration; and Former Executive Director, National Commission on Social Security Reform

Mr. Chairman and Members of the Committee: My name is Robert J. Myers. I served in various actuarial capacities with the Social Security Administration and its predecessor agencies during 1934–70, being Chief Actuary for the last 23 of those years. In 1981–82, I was Deputy Commissioner of Social Security, and in 1982–83, I was Executive Director of the National Commission on Social Security Reform (Greenspan Commission).

The bill developed by the distinguished Chairman of this Committee, jointly with the distinguished Chairman of its Subcommittee on Social Security, Mr. Bunning, and Congressman Kasich, contains two initiatives which will be extremely helpful in solving the likely long-range financial problem of the Social Security program (Old-Age, Survivors, and Disability Insurance).

Digressing a moment you will notice that I said the "likely" problem. Despite the prophets of gloom and doom who assert that the program as now constituted is absolutely financially unsupportable, I would point out that, although the intermediate-cost estimate shows serious problems 20–30 years from now, the low-cost estimate shows no problems in the next 75 years, and even beyond then. The low-cost estimate is based on reasonable assumptions, but it is not very likely that they will

all occur. Thus, it is only prudent that program changes should be made soon, even though they may be put into effect in a deferred, gradual manner beginning 10–15 years hence.

The first initiative is to establish a National Dialogue on Social Security through regional conferences and national Internet exchanges. This is most certainly an excellent step, and the plans therefore in the bill are well-designed, including procedures for obtaining the cooperation of national organizations so as to assure balance and widespread participation. This procedure will have the dual advantages of obtaining the views of the public on various aspects of the matter and, at the same time, educating the public about this complex subject. Although the use of the Internet for a dialogue will produce valuable results, it should be kept in mind that those who use the Internet are a select class of the citizenry, and their views are not necessarily typical of the population as a whole.

The second initiative is to establish a Bipartisan Panel to Design-Long-Range Social Security Reform. This Panel would operate, in many ways, in the same manner as did the Greenspan Commission in 1982–83. The differences for the Panel are, in my view, improvements. Digressing, I might say that the Greenspan Commission was, to a considerable extent, a great success, as evidenced by the fact that the Social Security program has had very favorable operations in the past 15 years, just about the same as had been estimated, and will likely have no cash-flow problems in the next 15–20 years.

The major difference between the roles of the Panel and the Greenspan Commission is that the Panel is given the specific assignment of designing a single set of recommendations to restore the long-range solvency of the program. With the cooperation and good will of its members, it should be able to accomplish this. It is likely that any package of changes which is developed will contain some provisions that some members will not like, but within the charge of designing a single set of recommendations, all members will likely consider the aggregate result as the ruling element.

The Greenspan Commission attempted to obtain such complete consensus, although this was not part of its charter, and came reasonably close. However, what happened was that there was, in essence, complete agreement on all recommendations except on what might be said to be the balancing item. One group wanted to raise the payroll tax rate over the long run, while the remainder wanted to reduce benefit costs by increasing the Normal Retirement Age. So, all members agreed to let the decision up to Congress (which chose the latter approach), and whichever way that the decision went, they would support it. This procedure is in sharp contrast to the 1994–96 Advisory Council on Social Security, which broke up into three irreconcilable groups, with only a few recommendations in common.

Another difference between the Panel and the Greenspan Commission is that the Panel will have the advantage or the availability of the wealth of information as to the views of the general public which are developed by the National Dialogue on Social Security.

Still another difference between the Panel and the Greenspan Commission is that the Panel is completely evenly bipartisanly divided. On the other hand, the Greenspan Commission had a slight excess of one party over the other (actually, 8 to 7). However, I believe that it is fair to say that all members were equitably treated, and there was a fine spirit of cooperation in seeking consensus to solve the problem.

Finally, I have suggestions of a minor nature as to how the bill might be changed to improve the procedures with regard to both the National Dialogue and the Panel.

As to the National Dialogue, for which 36 individuals are to serve on the Dialogue Council, selected from 54 individuals nominated by 18 designated private organizations, it is not clear whether there should be approximately equal numbers of men and women (as there are to be equal numbers in each of three year-of-groups). Also, it would appear that there will need to be informal cooperation between the private organizations in advance and later between the three appointing persons so that no individual is sought to be appointed more than once. Also, I believe that there should be nominating private organizations from two more fields—farmers and students.

As to the Panel, it would seem that the two Co-Chairs should be of different political parties. Under the bill as now written, they are both to be appointed by a group consisting of the Speaker, the Senate Majority Leader, the President, the House Minority Leader, and the Senate Minority Leader. The desired result would more clearly be obtained if one Co-Chair were to be appointed jointly by the Speaker and the Senate Majority Leader, and the other Co-Chair were to be appointed jointly by the President, the House Minority Leader, and the Senate Minority Leader.

In summary, I strongly support this bill and hope that it will be enacted quickly. If this occurs, it will be a most important element in the effort to restore long-range financial soundness to the Social Security program.

Chairman ARCHER. Thank you, Mr. Myers, and the Chair is grateful to all three of you for your contribution to this discussion.

I must admit there is no perfect way to get at this problem, and so, understandably, people who are very genuine that want to resolve the problem may have disagreement as to how the best approach can be designed. I only hope we do not spend a long amount of time arguing about the design of the table before we can begin negotiations. So often that occurs, and it would be my desire that we try to shorten discussions about the design of the table and move on to the substance of trying to reach a bipartisan intergenerationally fair solution to the Social Security situation.

And I yield to Mrs. Johnson.

Mrs. JOHNSON. Thank you, Mr. Chairman. I do think the bill makes a very good proposal, because in today's world you can't—the discussion has to be at a bigger table than the table of the Congress. While you could do that at the time the Greenspan Commission worked, and then come to a conclusion and educate people about that, in controversial areas in today's world you simply have to find a way of stimulating a broader discussion in America where more people have more input, where people of all ages and circumstances and points of view have a chance to listen to each other. And from that discussion I believe we will develop a far better understanding in America of both the seriousness of the problem and of our ability to solve it, and I am absolutely confident we can assure the future of Social Security.

But Wendell, one comment you made kind of interested me—your concern about using the surplus for individual accounts. You're right when you say that 50 percent of retirees have no additional pension income, and if you're retired on just Social Security, and if you were a lower earner and you're retired on the minimum Social Security benefit or even slightly above that, you're living in New Britain, Connecticut, on $6,000 or $7,000 a year.

Now that's a lot of women, and that's going to continue to be a problem because people are going to continue to retire on rather low incomes. And it's the very low-income people who worked for small businesses who are unlikely to have additional pension benefits.

And so this idea of immediately starting accounts for everyone so that through compounding they will have some additional benefit, I think is very exciting. I don't know yet whether it's the right thing to do, but compounding is so important that in a sense we can't afford to wait. Also, we do know that we cannot, even if we shoreup Social Security and do everything that's required to make it a sound system that can deliver on its promises—and I believe we're going to do that—that's still not enough. You can't live on the minimum Social Security benefit in today's world, with medicines, and so on that are really necessities in life.

I think to acknowledge that we have to solve the Social Security problem, but that that isn't going to be enough, is important, and

if we use these surplus funds to create these individual accounts over and above Social Security and outside of Social Security, the people they're going to help the most are people who work for small businesses that don't provide any pension benefit plans.

And since government, frankly, has been a big actor in driving out pension plans that small businesses could afford—and we all know we did it, through super regulation—and we're trying to get it back in now. We passed the SIMPLE plan; we're going to pass the SAFE plan. We're working on it. But this would immediately inject into the system some retirement possibilities that aren't there now for the very people who need them the most, so I hope you will help us think through this issue, rather than just rejecting it.

Mr. PRIMUS. I didn't mean to reject it. I'm very concerned about the individual savings. You're absolutely correct that these other aspects of the retirement system ought to be bolstered as well, but I was really making two points. The first point is that I really do believe that reducing the national debt increases national savings more than the establishment of the accounts. And the best thing we can do right now, while we have this year of dialog and debate, is that we use those surpluses for measuring our national savings. Don't spend the surplus, either on a tax cut or a spending increase.

And the second is a political point, not an economic point, and that is that I think we should restore Social Security solvency first, and maybe at the same time consider the establishment of individual accounts. I think that should be considered, but I don't think you should establish the accounts before you restore the solvency. They go hand in hand.

Mrs. JOHNSON. Thank you.

Chairman ARCHER. Mr. Cardin.

Mr. CARDIN. Thank you, Mr. Chairman. First, let me thank all three witnesses for their testimony. It's certainly very helpful as we start this National Dialogue on Social Security.

Mr. Primus, if I understood your point about the surplus, I think we're in agreement. The President has suggested that we do not spend the surplus until we've come out with a proposal concerning Social Security. You're suggesting the surplus be used to pay down the deficit. I think that's the same idea; we just have a clarification. We're saying——

Mr. PRIMUS. We're saying the same thing.

Mr. CARDIN. And Mr. Myers, I particularly appreciated your observations about the 1983 reforms. They were successful. The system has been working well. Social Security has accomplished its purpose of providing income security for our retirees. Not everything we hoped to do in 1983 was accomplished, but the program has been working well and people have been protected under the system.

And now we need to take a look at changes that are current today that we didn't know about in 1983. There are some people entering the work force today that have retirement options available that weren't present in 1983. The demographic changes in our country make it very clear that the number of people in the work force are going to continue to drop compared to the number of people receiving Social Security, so it seems to me that this is just a

continuation of the debate that took place in 1983 and that we are looking for a way to make sure that the objective of the Social Security system to protect the income of the people who are retired in this country is maintained. So, I just look at it as continuing the work that you have been doing over your lifetime, and I really thank you for that.

I think it's key, as we look for the reforms that are going to be needed in Social Security—and there are a lot of different suggestions that have been made—I agree with the Chairman. I think right now it's more important for us to figure out a bipartisan process than to look at any specific solution. I have my favorite, and I'd be glad to review it with you and go over it, review it with the Chairman and get his views on it, and maybe even get his support for the changes that I would like to see in the Social Security system.

But I know that it's going to need a lot more discussion and debate because it has a lot of rough edges on it, and I'm sure there are going to be some problems that people are going to bring to my attention. But it's only through this type of debate and discussion that we're going to be able to continue to achieve the objectives of Social Security and make sure that it's going to be available for future generations, and that's what this is about.

The President—and Mr. Primus, I agree with you—the President's National Dialogue is good. We don't want to do anything that will compromise the national debate, getting people involved around the Nation in this debate, particularly young people. It's their system that we need for the future. I will be having a forum next week on a college campus on Social Security because that's where the debate really needs to be engaged, with our young people, so they understand what's at stake.

But I think the Chairman has brought up a very good point. We need a mechanism that ultimately will allow us in a bipartisan way in Congress to deal with this issue. We can't substitute the Committees. We can't substitute the work of Congress, but it's got to come to us in a way that we can receive it in a bipartisan way, that it has the credibility.

And although I'm sure that we can come up with improvements, and so forth, to any mechanism that has been suggested, I would just encourage all of you to work with us so that the good work that the administration is going forward with, the good debate that we've started, that we understand that Congress is a very political body. And if we don't figure out some way to hand off this issue to Congress in a bipartisan way, then all this good work and all this good debate may go for naught.

So, any suggestions that you have, I certainly—particularly Mr. Primus. You're very sensitive to the political environment here on this Committee, so any suggestions you have that we could make sure that we carry out those objectives, we certainly would appreciate it.

Mr. MYERS. Mr. Cardin, I most certainly agree with you that the action that was taken in 1983 was quite successful. But no matter what is done, if action is taken now to restore the apparent long-range solvency of the system, at some time in the future further adjustments will be needed.

Mr. CARDIN. Right.

Mr. MYERS. And perhaps it will be in the other direction. We may find that what we're doing today would provide more financing than needed. As I recall, back in 1983, people were willing to raise the normal retirement age, not merely to 67; they would have been willing to raise it to 68, but it didn't seem to be needed at the time. We knew then, of course, that the baby boomers were coming along. That's why cost estimates should be made for long periods of years, like 75 years, as the distinguished Chairman said. It's quite possible that the future experience will be more favorable than estimates made today, and in that case action can be taken.

For example, if for some reason longevity does not improve as rapidly as the actuaries now assume, and if the retirement age is raised, later it might be found that it will not need to be raised that far. Of course, that's much more pleasant, to freeze the retirement age or lower it some than to take steps going in the other direction. I think that over the years and for all time to come, adjustments will need to be made in this system.

Mr. CARDIN. The error that was made in 1983 was that we expected the change to last for 75 years. There's nothing we could do here in Congress, ever, that will allow a program to go without modification or change for that long a period of time, nor is it healthy for us to have changes that are so permanent in nature for such a long period of time. We should have been more realistic in 1983, recognizing that by the end of the century we would need to look at the system again, and that's what we need to do.

Thank you, Mr. Chairman.

Mr. PRIMUS. Can I make one comment, and that is that I think the task that confronts Chairman Archer and Chairman Bunning is much more difficult than the task that confronted Chairman Rostenkowski and Chairman Pickle. As you heard in testimony earlier, we were 6 months away from the trust fund's not having sufficient dollars to pay in 1983.

Right now, regardless of what set of assumptions the actuaries use to make their projections, it's still a long time in the future, and I think reaching the political consensus and bringing the two parties together is going to be a much more difficult task. And I think we need to stimulate the dialog; the American public has to be involved in that.

And you, the Committee, are going to have to also engage in—I would argue for retreats and some other—where you can bring in experts and do all of those kinds of things to educate the Committee because there are only seven Members of this Committee that were around during the 1983 debate.

Chairman ARCHER. Mr. Primus, I think your comments are exceedingly well taken, and from a practical standpoint, I agree completely with them. And that's why I mentioned in my preliminary remarks that this was going to be a real test of democracy, as to whether we could make difficult decisions when we're not staring oblivion in the face, but where it is 30 years down the road.

It also is another reason why, after examining all of the alternatives, I decided that a commission—and a smaller commission than what we had in 1983—would be the best opportunity to focus on this issue and attempt to drive it in a way that would reach con-

sensus, that the Congress could—although not accepting automatically—be put in a position to where we at least would have to consider it.

It seems to me one of the difficulties we have today is that all of the outside panels, all of the outside groups that have looked at this issue have come forward with extremely diverse suggestions as to what we ought to do. There is no consensus.

The recent Social Security Advisory Council was split almost one-third, one-third, one-third. Well, that doesn't give very much direction to the Congress of the United States. It simply creates more confusion and more opportunity for conflict within the political fabric of the Congress.

And one of the things we put into the legislation to create the Commission is they would be charged with coming back with one consensus recommendation. And it almost would be like a jury. A jury cannot come back divided and have a verdict in a regular litigation case in this country, and they are put under a responsibility to attempt to resolve their differences and come back with a uniform verdict. And I see this Commission as being under a similar charge, if they need to work this out and come back with a strong consensus, rather than divided one-third, one-third, one-third, which I don't think helps the process.

But I do agree with your views that this is not going to be easy to do because we're not right at the edge of the cliff.

Mr. McCrery.

Mr. MCCRERY. Thank you, Mr. Chairman, and thank all of you for your testimony.

Mr. Chairman, I'd like to make a comment about the previous panel, since we had to go vote before I had a chance to question the panel, and it's very simple. One of the members of the previous panel had said that Speaker Gingrich had endorsed the Kasich bill that was dropped today, and I don't believe that's the case. The Speaker has not endorsed that bill, and so I just wanted to clear that up.

Mr. Primus, when you say that we ought to use the surplus to buy down the debt, what surplus are you talking about? Are you talking about just this year's surplus, or are you talking about the next 5 years or the next 10 years as projected under current conditions? Just define for me what you mean by the surplus.

Mr. PRIMUS. Well, I would like to see you draw down the national debt for a long period of time. Gwen, the demographics of the country right now and our low national savings rate—that really is the best economic solution, if you will, to expanding and growing our economy.

But I think at the same time I would like to see this Committee and the administration and Congress come to a solution that would restore solvency in the Social Security Program, as well as in the Medicare Program. Right now, demographics is destiny. We know that very soon a lot more people are going to be reaching age 62 and 65, and I think we should be taking a very prudent course right now in recognizing that fact and drawing down—reducing our national debt.

Mr. MCCRERY. Well, let me see if I understand you. Are you saying we should buy down the debt with the surplus until we figure

out an overall solution for Social Security, and if necessary—then—we could use the surplus to shoreup the Social Security system? Is that what you're saying?

Mr. PRIMUS. Yes. The surplus exists today because, as the Chairman said in front of the other panel, Social Security revenues exceed Social Security outgo and that excess is loaned back to the general fund. The rest of government is currently not in balance. We have not reached a balance in the rest of government, and I'm basically saying you should continue to apply your budgetary rules. While there are still important national priorities that need attention, you should still continue the pay-as-you-go process that was established in the late eighties. And that's a very good process in terms of budget discipline.

Mr. MCCRERY. OK, so you're not averse, then, to using any surplus for the next 10 years to shoreup the Social Security system, to apply that surplus to a fix, a long-term fix for the Social Security system. Is that correct?

Mr. PRIMUS. That's correct. I have a little problem in the sense that that surplus exists because Social Security is in surplus, and so it's kind of like double investing, if you will, if we took the surplus that exists because of Social Security and then use it to help it again. It doesn't sound quite right to me.

Mr. MCCRERY. Yes, I understand your discomfort there, but we don't know what the solution is to Social Security. As the Chairman pointed out, there are a variety of suggestions for fixing the systems, and some of those, if not most of those, probably require some sort of transition funding to get us from where we are now to the new system.

So, while I share your discomfort with spending money that we don't really have in a sense, it seems to me we have an opportunity now with the surplus being generated, thanks to the fiscal policies that have been adopted for the last few years, that we have an opportunity to finance this transition from where we are now to a new system, which we hope would, with the help of actuaries, be sound for as far as the eye could see. And it seems to me that that would be a reasonable investment to make as a society.

So, I think that if we can reach consensus—and that's a big if—but if we could reach consensus or even reach a majority and get a President to sign a majority will of the Congress for an approach to solving the problems in the Social Security system, then we might ought to spend that surplus. Because in the long run, we would make more than we would spend in the short run, if you get my meaning.

Mr. PRIMUS. If I could comment on that, I guess I'm not quite willing to buy the notion that Social Security is fundamentally broke or unsound. We need to restore the imbalance between income and outgo. But it's like, if I may use a sports analogy—since we just got through March madness. There are different components to our retirement system. And Social Security as one component of that system has inflation protection, it's universal, it's a defined benefit, and so forth. You don't need or expect each component of the system to have the same attributes. Just as we don't expect the same attributes of a point guard as the center, we do not need each component of the retirement system to be extended.

So, the fact that we have a lower rate of return in the Social Security system—we have other attributes that make up for that. For each American there ought to be Social Security and individual savings and pension, as well as Medicare—the health side of the retirement system. And so because Social Security is so important to low and moderate Americans, I think the imbalance that exists in Social Security needs to be eliminated.

But when you say transition to a new system, I'm not convinced we need a transition to a completely different system. I think we can restore Social Security, work on those other components—try to increase the coverage rate in the pension system, try to encourage Americans to save. Neither one of those components are completely broke and each one could use some incremental improvements.

Mr. MCCRERY. Well, if I might respond, Mr. Chairman, for just a moment. I don't mean to say a completely new system, vastly different from what we have now. But any change would be a new system, and that could be anywhere from just a little tweaking here to a completely new system. I don't know where that's going to fall, but most of the suggestions, many of the suggestions that have been made for changing the system require some kind of transitional funding.

And I think you will admit, Mr. Primus, that if we put every bit of the surplus on paper into financing future Social Security benefits, it would not solve the actuarial problem that we have, at least the surpluses that are now projected. Is that correct?

Mr. PRIMUS. I think that's correct, yes; especially if you use the Congressional Budget Office.

Mr. MCCRERY. So it doesn't make much sense, does it, to stick our heads in the sand and say, "Well, let's just use the surpluses to finance Social Security and not worry about making any changes to the system."

Mr. PRIMUS. I'm not arguing for sticking our heads in the sand. I'm saying——

Mr. MCCRERY. So you're not against changing the system?

Mr. PRIMUS. No——

Mr. MCCRERY. OK.

Mr. PRIMUS [continuing]. It needs to be changed, and there are, unfortunately, I think, only three big ways of doing that, and that is reducing benefits, increasing taxes, and maybe investing some of the balances in securities and trying to get a higher rate of return. Those are really—there are permutations on that, but there really isn't any other way of solving this imbalance.

Mr. MCCRERY. I think you've got it. Thank you.

Chairman ARCHER. Any——

Mr. SCHULTZ. Mr. Chairman.

Chairman ARCHER. Yes, Mr. Schultz.

Mr. SCHULTZ. Just a general comment, maybe before closing. You said Americans want to learn more and share their views with their elected officials. And I think when you said Americans, you're talking all Americans, you're talking all generations. I'm sure that my 14 grandchildren and even my 4 great-grandchildren might want to have a voice in what happens, and I think you have set up a plan that will permit these things to happen.

I think we have to be sure we have all avenues open to them, that we hold these meetings at times when they can get there, that we use all means. I think it was pointed out by Mr. Primus that the Internet will only provide an opportunity for certain segments of the population. As we go forward, I want you to know that AARP looks forward to working with the President and Members of Congress on a bipartisan basis to carry out this national dialog. And as our own initiatives go forward, if there is any information that we glean from them that might be useful to the Dialog Council or to the bipartisan panel, we'd be very happy to share that with them.

Chairman ARCHER. Mr. Schultz, thank you very much, and thank you for your participation today. We look forward to working with AARP and many other groups and sources of information and expertise in trying to work through this problem.

Mr. Cardin, do you have any further questions?

Mrs. Johnson.

Thank you very much, gentlemen. Have a good day. The Committee will stand adjourned.

[Whereupon, at 2:26 p.m., the hearing was adjourned, subject to the call of the Chair.]

[Submissions for the record follow:]

ASSOCIATION OF PRIVATE PENSION AND WELFARE PLANS
1212 NEW YORK AVENUE, N.W., SUITE 1250
Washington, D.C. 20005

The Honorable Bill Archer
Chairman
Committee on Ways & Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The Association of Private Pension and Welfare Plans (APPWP) commends you and Reps. Kasich and Bunning on the introduction of H.R. 3546, the "National Dialogue on Social Security Act of 1998." APPWP is prepared to assist in any way in the passage of this important legislation and, once enacted, to ensure the successful implementation of of its provisions. As you know, APPWP is the national association representing employers on the full range of employee benefit matters. Our members either sponsor directly or administer retirement and health plans covering more than 100 million Americans.

Certainly, Social Security reform is one of the most important issues facing the nation. Accordingly, it is vital that as many Americans as possible be fully engaged in the discussions and debate that will lead to the changes that Congress and the President will consider. Your call for an official National Dialogue on Social Security and for the establishment of a Bipartisan Panel to Design Long-Range Social Security Reform is precisely what must be undertaken before either the nation or lawmakers can make informed decisions that will enjoy the support of the American public.

APPWP applauds your leadership and foresight in establishing both a structure and a timetable for informed decision-making by the general public and those charged with the responsibility for designing reform proposals.

Naturally, APPWP will gladly assume our responsibility under H.R. 3546 to nominate individuals for consideration for the Dialogue Council. In addition, throughout the entire Social Security reform process, APPWP will provide whatever assistance possible to you and your colleagues as you undertake this vital initiative.

Sincerely,

JAMES A. KLEIN
President

Statement of Center for the Study of Economics

We need an expert panel to discuss the real problem posed by the coming tsunami of Social Security claimants, and the Social Security payroll tax is already very high (most Americans pay more in payroll tax than they do in income tax).

Social Security privatization is one way to go, but realistically it could only cover part of the Social Security cost. Social Security will still have to find a tax source for its revenue. Both payroll and income taxes are high and burden the economic growth needed by poor people.

Rather than tax producers, Social Security should tax the locational value of land instead.

(1) If Social Security taxes production, production is discouraged. But if Social Security taxes locations, there won't be fewer locations (impossible) and we tax land into fuller use, thereby creating jobs and economic growth.

(2) Most voters will pay less in taxes if Social Security taxes the locational value of land rather than production. That's because most voters (especially the poor) own very little locational value (otherwise they wouldn't be poor).

All studies have shown that a tax on the locational value of land fully substantiate the above benefits. It is endorsed by literally hundreds of urban experts and by eight recent American Nobel Prize winners in economics.

The Center for the Study of Economics has had experience administering such a tax and offers to help the panel pro bono if called upon.

Statement of Charles G. Hardin, President, Council for Government Reform

Mr. Chairman, thank you for allowing me to testify for the record about our nation's federal retirement income security system: Social Security. I greatly appreciate this opportunity to share the views of our 350,000 members with the Committee.

My name is Charles G. Hardin and I am President of the Council for Government Reform (CGR). CGR is a non-profit citizen lobbying organization that seeks to encourage greater responsiveness by, and an overall reduction in the size and scope of, government at all levels. CGR advocates a lower tax burden, improved financial security for our Senior Citizens, and a less costly system of government for ourselves and future generations.

CGR would like to thank Chairman Archer and the members of the Committee on Ways and Means for turning their attention to the thorny problem of the long-term solvency of Social Security. Chairman Bunning of the Subcommittee on Social Security deserves much credit too. Because of his leadership, the Subcommittee has held eight important hearings discussing the long-term problems with Social Security. CGR believes that these hearings have contributed greatly to the public education process and looks forward to future hearings in the series.

For the more senior members of the Committee on Ways and Means, I am sure that anytime the words "Social Security" and "reform" are mentioned in the same sentence, you may have flashbacks to former Chairman Dan Rostenkowski and the spot of trouble he had with some seniors over catastrophic coverage. It takes a special type of courage to brave the slings and arrows that will be fired over this issue and I would like to make it clear that in taking up this cause, you are showing the courage necessary to lead effectively. We thank you for that courage.

CGR would also like to thank Speaker Gingrich for coming to this panel today and lending his powerful and eloquent voice to the proceedings. CGR is pleased that he has joined the chorus calling for reform. The Speaker is well known for his vision and his determination in fulfilling that vision. CGR is confident that in the absence of partisan politics, the President, the Speaker, and the Majority Leader can work together to craft a long-term solution to the Social Security crisis that will increase rather than decrease the standard of living for all Americans.

As we are all aware, Social Security is a vital program for the millions of Americans who currently receive benefits and for the millions more who are counting on Social Security income for a secure retirement. Therefore, when the current Social Security structure is threatened by the increasing numbers of retirees, with fewer workers to support them, and with stagnant wages to tax, it is a problem that Congress and the American people must address while there is still time to fashion a pain-free and politically possible solution.

No one seriously denies Social Security's lack of long-term viability. Estimates range from the year 2006 to 2030 as to when the Trust Fund will exhaust its surplus and begin running at a deficit. At that time, we will face the Hobson's choice of massive benefit cuts or staggering tax hikes.

Benefit cuts would cripple millions of seniors who have not had the ability to save for their own retirement because they trusted Social Security's promises. And tax hikes would hurt workers already burdened with the challenge to rear their families while struggling to make enough after-tax income to support themselves, let alone provide for their futures. Clearly, this scenario is a recipe for economic stagnation and decay.

Fortunately, the avenue of escape from this dreary scenario lies readily at hand. Congress must burst the old mold of tax hikes and benefit cuts and cast a new mold by increasing the rate of return on dollars invested in Social Security. The exact details of any plan will require much discussion and debate over the next year, but I would like to outline the most important principles necessary to save Social Security:

• The federal government must stop raiding the Social Security Trust Fund to pay for current spending. The feeding frenzy on the temporary Social Security surplus simply creates more debt. Congress should also dedicate a substantial portion of any federal budgetary surplus to repay the money owed to the Trust Fund.

• Any Social Security reform must not increase payroll taxes and must not cut benefits. These traditional solutions have only deepened the problem by slowing economic growth and fueling the federal government's free-spending ways.

• Congress must facilitate an increased rate of return on Social Security investment dollars. We need to create wealth through investment, not subsistence through the indebtedness of our grandchildren. The best strategy would require individuals to place Social Security taxes directly into some form of personal retirement savings accounts (PRSAs). From these accounts, individuals would then invest their savings in various investment vehicles, such as stocks, bonds, and mutual funds which will return enough income to ensure a safe and secure retirement for most Americans. Not only would individuals benefit directly, but so too would the entire economy.

Regarding the aforementioned principles, CGR is pleased that Speaker Gingrich endorsed the reforms embodied in Representative John Kasich's H.R. 3456, "The Personal Retirement Savings Account Act of 1998."

H.R. 3456 allocates 80% of any general fund surplus to Personal Social Security Plus Accounts for all covered workers in that year. This is a step in the right direction and I applaud Rep. Kasich's ingenuity and courage in offering a workable bill that would give every working American some ownership and control over their retirement income.

H.R. 3456 would ensure that most of the surplus money raised by the current payroll tax is spent on retirement programs, as was originally intended. When Congress reformed Social Security in 1983, it increased payroll taxes. But Congress overestimated the money it needed to pay to retirees and the Social Security Trust Fund began to run a large surplus. Instead of returning this money to the taxpayers or investing it, Congress spent it and replaced it with non-negotiable U.S. Treasury Bonds that can only be repaid with tax dollars. As of 1998, the U.S. Government will owe the Social Security Trust Fund more than $700 billion.

For Fiscal Year 1998, the unified budget could run a surplus as high as $40 billion. But the calculation of this surplus includes nearly $100 billion taken from the Social Security Trust Fund. In a sense, H.R. 3456 repays some of the money owed to Social Security Trust Fund because that money is used for retirement purposes. Also, H.R. 3456 uses the remaining 20 percent of the unified budget surplus to pay down the national debt which also helps to repay the Social Security Trust Fund.

But notwithstanding my praise for Representative Kasich=s proposal, CGR views H.R. 3456 only as a small part of the solution to the overall problem with Social Security. Clearly, H.R. 3456 would improve the Social Security long-term deficit situation. But it is only a supplement, not a solution.

American taxpayers cannot continue to pour 12.4 percent of their earnings into a public investment program that already provides a negative rate of return for far too many future retirees. Undoubtedly, maintaining the status quo will lead to a lower standard of living. To reverse this course, Congress must allow Americans to invest more of their FICA tax dollars in investment instruments where they can achieve greater rates of return.

That is why CGR supports H.R. 3546, The National Dialogue on Social Security Act of 1998 and is pleased that the Committee on Ways and Means is holding this hearing on the bill. Because a plethora of options purport to solve the long-term problems associated with Social Security, CGR sees great value for members of Congress, and for the public at large, for a blue-ribbon panel of experts to distill the

best portions of these plans into a working model for Congress and the public to consider. Presumably this model would then serve as the consensus starting point to craft final legislation for the House Committee on Ways and Means and the Senate Committee on Finance.

Inevitably, in the give and take of legislative politics, this plan, like any other plan, would be modified to reflect the needs of practical politics. Establishing a baseline to start the dialogue seems like as good a place to begin this daunting task.

CGR also believes that the panel and the national dialogue established by H.R. 3546 is more representative of the debate at large than the dialogue hosted by the American Association of Retired Persons and the Concord Coalition. The townhall meetings in which President Clinton will participate have the potential, given the weight of his office, for focusing public attention on the debate. For this we commend him. However, CGR is very concerned that some of the more thoughtful privatization proposals will not receive a fair hearing in the dialogue they sponsor. On the other hand, the dialogue established by H.R. 3546 would include all points of the political spectrum, from those who advocate an expansion of the current Social Security program to others who advocate 100 percent privatization.

Mr. Chairman, thank you for this opportunity to discuss long-term Social Security reform. On behalf of our 350,000 members, I look forward to working with you and all the other members of the Committee on Ways and Means during the next several months to ensure a fair and equitable retirement and safety net for all Americans in the future.

NATIONAL ASSOCIATION OF MANUFACTURERS
1331 PENNSYLVANIA AVENUE, N.W.
Washington, DC 20004–1740

The Honorable Bill Archer
Chairman
Committee on Ways and Means
1236 Longworth House Office Building
Washington, D.C. 20515–4307

RE: STATEMENT FOR THE RECORD

Dear Chairman Archer:

The National Association of Manufacturers commends the Ways and Means Committee for scheduling a hearing on the merits of establishing a bipartisan panel of experts to design Social Security reform. In addition, the NAM applauds the attention that the Committee is giving to the vital issue of engaging the American public in discussion of the problems facing Social Security and of equitable solutions.

The NAM has taken a lead among trade associations in calling for fundamental reform of the Social Security system. We recognize that the system directly affects all working Americans, their dependents, and those in or approaching retirement. To this effect, an open and thorough discussion of the economic and demographic issues is entirely appropriate, and cannot begin too soon.

The NAM also recognizes that an unreformed Social Security system would cripple the American economy. American workers and businesses could no longer compete successfully in the global market for goods and services. Indeed, the U.S. is well behind several other nations in Europe, South America and the Pacific Rim in addressing the problems of their unfunded public retirement systems. Unless the U.S. steps up to these issues quickly, we can anticipate a stagnant domestic economy, with a reduced standard of living and lowered expectations for all Americans.

Based on the work of a NAM Task Force on Social Security reform, we believe that two issues are at the heart of any successful program of reform. First the "safety net" of social insurance must be maintained, so as to allay fears of old-age poverty. Secondly, reform must result in creation of funded retirement accounts that represent real savings and wealth creation for individual members of the U.S. workforce.

We request that this letter be made a part of the public record. Also for the record, we attach a "Statement of Principles" for Social Security reform, approved the NAM Board in 1997. In addition, we include for the record a recent Issue Brief that describes in detail the position of the White House, the Chairman of the Fed-

eral Reserve, and explains the methodology of significant pieces of Social Security reform legislation currently before the Congress.

Sincerely,

PAUL R. HUARD
Senior Vice President

A Public Policy Summary Issue Brief, April 1998

SOCIAL SECURITY REFORM AND ECONOMIC GROWTH, THE SECOND IN A SERIES

LEGISLATIVE PROPOSALS AND POLICY PRESCRIPTIONS

An April 1997 NAM Issue Brief identified the relationship between economic growth and reform of federal entitlements programs. The issues examined in that document,"An Overview of Issues and Terminology," remain relevant, even as lawmakers introduce new legislative proposals. In addition to introduction of several bills, the White House, congressional leaders and the chairman of the Federal Reserve System have made major policy statements on reform.

Issue

As Congress and the Administration move toward a consensus on reform,
what legislative proposals and policy prescriptions form the basis for debate on Social Security reform?

NAM Position

During the past several months, the NAM has retained its leadership among trade associations in addressing structural imbalance of the Social Security system and in calling for early enactment of fundamental reform. Although the NAM has not endorsed any specific reform proposal, it continues to evaluate bills and policy proposals according to the "Statement of Principles" for reform approved by the NAM Board in April 1997. A summary of those principles, which appeared in the April 1997 Issue Brief, includes: (1) separation of the accumulation of retirement savings from the provision of a needs-based "safety-net" of retirement income security; (2) individuals' ownership of retirement savings account, with contributions and accrued earnings available upon retirement, or transferable to survivors and heirs; (3) investment of assets free of government control or influence, in such a manner as to produce market rates of return; (4) recognition that fundamental reform is closely related to issues of federal tax policy and rules affecting private pension plans; and (5) recognition that changes must be implemented as soon as possible.

Policy Proposals

Legislative and policy proposals currently under discussion for reform or restructuring of the Social Security retirement system include the following:

The White House Policy Proposal

In his State of the Union message on January 27, President Clinton advocated using federal budget surpluses to support the existing Social Security retirement system. Gene Sperling, director of the President's National Economic Council, described the White House initiative as a "Social Security First" strategy.

According to the President, the budget surplus should be "reserved" and not expended for either tax cuts or new spending until the Social Security system is brought into fiscal balance. The President, however, failed to specify how to achieve this balance.

At a meeting of the Center for Strategic and International Studies held two days after the State of the Union address, Sperling noted that now, with projected tax receipts exceeding earlier expectations, there is a "unique opportunity" for Social Security reform. He explained that "reservation" of any budget surplus to reform or restructure the system creates a mechanism for fiscal discipline by both the Congress and the White House. Responding to a question from the NAM, Sperling declined to state whether the Administration would consider a reform proposal based in part on individual accounts.

Subsequent testimony by Treasury Secretary Robert Rubin and Office of Management and Budget director Frank Raines before the House and Senate Budget Committees produced no further clarification. Aside from the stated strategy of "Social

Security First," the Administration has been cautious in revealing publicly its preferred mechanism for reform.

Individual Accounts. In a February 9 speech before students at Georgetown University, President Clinton reiterated the importance of Social Security reform, and—in a manner consistent with reform advocates—stressed the significance of early attention to the issue, in order to avoid a financial crisis. Beyond this, the President made few specific policy recommendations. He emphasized the importance of individuals putting their retirement savings individuals in a variety of vehicles (an issue previously discussed at a NAM Employee Benefits Committee meeting by Mark Irwy, benefits tax counsel at the Treasury Department). According to the President, these savings vehicles would include IRAs and 401(k) plans.

The following day at a hearing before the Senate Special Aging Committee, Social Security Commissioner Kenneth Apfel indicated that items "on the table" at the White House is use of individual accounts as a possible means of addressing structural problems of the current system. Economic advisor Gene Sperling, in remarks on the following day, voiced similar comments.

Reform Strategy/Timetable. In his testimony before the Senate Special Aging Committee, Apfel provided a timetable for Administration efforts on Social Security reform. President Clinton himself will participate in at least four public forums that will address the issue. The forums will be held in conjunction with the American Association of Retired Persons and the Concord Coalition—organizations identified with opposing poles of the debate over fundamental reform. The first forum is scheduled for April 7, in Kansas City. (The NAM already participates, with the Concord Coalition, in a program of public forums throughout the nation, and in related educational efforts.) Following the public forums, the Administration will sponsor a White House conference on Social Security in December 1998. Apfel also stated that the Administration will work with the House and Senate leadership on a legislative proposal during the first session of the 106th Congress.

Compatibility With NAM Principles. The White House is concerned both with the "philosophy" and the "mechanism" of achieving reform or restructuring of Social Security. During an NAM policy forum last fall, Raines clearly showed the Administration's reluctance to consider individual accounts in any reform mechanism. Apfel's recent testimony and comments by Gene Sperling indicate a possible change in philosophy.

Individually owned accounts are central to the NAM principles, and the NAM would oppose any "reform plan" that did not provide for such accounts. Early implementation of a reform plan, as called for by President Clinton in his Georgetown speech, is quite consistent with the NAM principles.

Senate Testimony by Alan Greenspan

Federal Reserve chairman Alan Greenspan testified before the Social Security Task Force of the Senate Budget Committee on November 20. He acknowledged that a financial imbalance exists in the current Social Security system, such that, "... the [Social Security] system as a whole [is] badly underfunded." According to Greenspan, funding remains the critical element in any debate over reform, because of the obvious fact that any retirement system requires an accumulation of real resources over working lifetimes sufficient to fund the retirees' consumption. Because the current system is underfunded, additional resources can be accumulated only through increased taxes (with negative effects on growth), through reduced benefits, increased private savings, or government surpluses.

Increased National Savings. The crux of Greenspan's testimony was that only increased national savings can provide the additional national productive capacity necessary to fund liabilities to future retirees. He suggested reforming the existing "defined benefit" (DB) Social Security model in favor of a funded "defined contribution" (DC) system of accounts for individuals. Regardless of a DB or DC model, a funded retirement system would require increased national savings—merely shifting current trust fund investments from federal debt securities to private equity securities would fail.

Recognition Bonds. Greenspan also suggested using "recognition bonds" to bring unfunded liabilities of the Social Security system "on budget." The government would distribute such bonds to individuals, in recognition of prior contributions to Social Security in the form of FICA taxes paid.

Out of the Blue. The candor and specificity of Chairman Greenspan's testimony took the Senate Task Force and the financial press by surprise. As a result, his observations on the state of the Social Security retirement system and proposed remedies have yet to receive substantial attention. Despite this, Greenspan's testimony and his continuing observations are likely to encourage a consensus in favor of a funded, DC model.

Compatibility With NAM Principles. Greenspan's suggestions for funded DC accounts is fully in keeping with NAM principles. Although the principles do not address recognition bonds or creation of new federal debt as a means of satisfying existing liabilities, the NAM advocates a reform plan under which neither debt nor taxes increase.

Legislative Proposals

Members of the House and Senate have introduced a variety of bills that address the state of the Social Security system. Among the more significant proposals are the following:

H.R. 2929

Rep. John Edward Porter (R–IL–10) is sponsor of this comprehensive proposal that would allow individuals to opt out of the current Social Security retirement system in favor of individual investment accounts. Rep. Porter, a well-respected nine-term congressman, was among the first in the House to draw attention to the fiscal imbalance of a maturing Social Security system.

Individual Choice. Rep. Porter's bill allows individuals to make contributions to "Individual Social Security Retirement Accounts" (ISSRAs). In lieu of the current 12.4-percent combined Old Age, Survivor's and Disability Insurance (OASDI) portion of FICA tax on wages, H.R. 2929 provides for a 10-percent combined contribution to an ISSRA. In addition, an employee could elect to make an additional 10-percent contribution to the account.

Under the Porter bill, the remaining 2.4 percent of FICA tax would continue payable to the Social Security Trust Fund, for a period of 10 years after an individual had opted out of the current system. Thereafter, neither employer nor employee would have an obligation for its respective 1.2 percent tax payment on behalf of the individual.

Disability and Life Insurance Coverage. A portion of the ISSRA would purchase private disability insurance and life insurance, in amounts consistent with current SSDI and survivor benefits.

Tax Effects. Under H.R. 2929, employee contributions (the 5 percent basic contribution, plus any additional contribution) are not deductible for income tax purposes. Employers continue to take a deduction for business tax purposes, as is currently the case with FICA. Investment earnings on amounts contributed to ISSRAs are not taxed until distributed. The bill allocates distributions of contributions between taxable and non-taxable portions. Accounts may be liquidated through annuity purchase or through a series of periodic payments. Retirement age is 59-and-a-half. Unliquidated amounts become a part of an individual's estate.

Investment. Investment management of individual accounts is based upon a government-approved list of private investment managers.

Recognition Bonds. For those opting out of Social Security and into ISSRAs, the government would provide a recognition bond as evidence of FICA paid to date. Such bonds would be redeemable as an annuity upon retirement. Persons younger than age 30 would receive no recognition bond.

Basic Benefit. The government guarantees a minimum ISSRA benefit, financed through general revenues. The minimum benefit is the lesser of 40 percent of pre-retirement income or 95 percent of the Social Security benefit an individual opting out would have otherwise received.

Phased Changes. Social Security benefits for those electing to remain in the current system are reduced somewhat, over an extended time period, with the Social Security Normal Retirement Age (NRA) increasing, as under current law, to 66 in 2005. Under the bill, the NRA would increase to 70 by 2028. Wage indexing of the Cost of Living Adjustment (COLA) replaces the present Consumer Price Indexing (CPI). Early retirement age remains 62, and the bill provides a minimum benefit or "safety net."

Co-sponsors. Co-sponsors of H.R. 2929 include Reps. Spencer Bachus (R–AL–6), Thomas E. Petri (R–WI–6), Mark Sanford (R–SC–1), Christopher Shays (R–CT–4) and Nick Smith (R–MI–7).

Compatibility With NAM Principles/Effects on Capital Formation. Rep. Porter's bill is consistent with the NAM principles. Because the bill is generous to persons opting out of the current system, it is estimated to produce new capital of $4 trillion by 2015. But because of this generosity and because the bill gives recognition bonds to those opting out, the costs of transition remain formidable.

Additional Comments. The Porter bill is ambitious. It draws heavily upon the aggressive Social Security reform plan implemented by the nation of Chile, which has proven surprisingly popular and dramatically successful in producing individual wealth and increasing national capital. The similarity of the bill to the Chilean plan

reflects policy work by Peter Ferrara. Ferrara is an outspoken advocate of reform, associated both with the CATO Institute and Americans for Tax Reform (ATR). (The policy work of CATO is well respected on the Hill and within the business community. ATR is a potent grass roots group that advocates dramatic tax reduction and smaller government.)

The NAM applauds the zeal of the Porter bill, but is concerned that costs of transition, particularly the recognition bonds, may not be financially and politically achievable.

H.R. 2768—Personal Retirement Accounts Act

Rep. Mark Sanford (R–SC–1) is sponsor of the Personal Retirement Accounts Act of 1997. Rep. Sanford, a sophomore congressman from a district that is economically and ethnically diverse, ran for Congress on a platform of reforming Social Security. He was re-elected to a second term without opposition.

Rep. Sanford's bill, like Rep. Porter's, creates investment accounts. Under H.R.2768, each individual contributes to a "Personal Retirement Account" (PRA). Unlike ISSRA accounts under the Porter bill, Rep. Sanford's PRA accounts are mandatory.

Contribution Level. Under H. R. 2768, PRA contributions total 12 percent of each individual's wages (compared with the current 12.4 percent OASDI portion of FICA), with employers and employees contributing equal amounts. Of the 12 percent amount, 8 percent constitutes an addition to the individual's retirement account. The remaining 4 percent finances liabilities already accrued under the current Social Security system and accruing during the transition period. The bill allows additional voluntary contributions by individuals, limited by current rules applicable to 401(k) plans.

Disability Coverage. Rep. Sanford anticipates significant changes to the Social Security disability income program (SSDI). As a consequence, his bill provides no mechanism for a separate disability income component, and the portion of OASDI tax allocated to SSDI (currently 1.8 percent of the 12.4 percent OASDI total) continues as a separate FICA tax.

Tax Effects. The employee's half of the 12 percent amount contributed to a PRA remains non-deductible for income tax purposes. The employer's portion remains deductible. No tax liability accrues for investment earnings on contributions. In contrast to the Porter bill, the entire amount of retirement distributions under the Sanford bill is free of income tax.

Investment. Under Rep. Sanford's bill, investment of PRA amounts must be within standards of risk that replicate performance of the Standard and Poor's 500, until the PRA amount reaches a present value sufficient to provide the individual with a straight life annuity of $9,200 annually. Once the account balance surpasses such amount, investment guidelines are relaxed, so as to encourage higher yields.

Protection for Participants. Among the key aspects of H.R. 2768 is a detailed regulatory mechanism. To this effect, investment managers are subject to license by the Securities and Exchange Commission. The SEC will consider capital adequacy and experience in providing retirement fund investment services. In addition, the SEC will require full disclosure of management fees. Otherwise, the Sanford bill encourages a great variety of investment managers to apply for licenses under the PRA program, including mutual funds, trust banks, integrated investment companies, insurance companies and others.

The Sanford bill provides for investment insurance with premiums paid annually by the account manager from a portion of PRA contributions.

Retirement Age. Under H.R. 2768, NRA is 70. The Sanford bill specifies the early retirement age (ERA) at 62. At retirement, and according to the individual's option, the PRA amount can fund annuity purchase or may be liquidated through periodic payments or a lump-sum distribution. Unliquidated amounts become a part of the individual's estate.

Grandfathering. Persons currently in retirement upon enactment of H.R. 2768 are unaffected and will continue to receive Social Security benefits as scheduled. For those nearing retirement, the Sanford bill provides total retirement benefits under the current system and the PRA at a level no less than scheduled Social Security benefits. During the transition period such benefits are financed through the 4 percent portion of the PRA not allocated to investment accounts, and through such mechanisms as a bipartisan commission on transition funding shall determine.

Prior Contributions. Unlike the Porter bill, H.R. 2768 provides no recognition-bond device. In absence of the recognition bonds, and because of lower allocations to individual accounts than under the Porter bill, the transition costs of the Sanford bill are less.

Phased Changes. Separately, the Sanford bill changes the basic benefit formula for future retirees under the current Social Security system. Such revisions change "bend-points" so as to reduce benefits. The bill also gradually reduces the combined benefits of working spouses, from the current 150 percent of the larger Primary Insurance Amount ("PIA") to 133 percent.

Co-sponsors. Co-sponsors of H.R. 2768 include Reps. Amo Houghton, Jr. (R–NY–31) and Nick Smith (R–MI–7).

Compatibility With NAM Principles/Effect on Capital Formation. Rep. Sanford's bill is consistent with NAM principles. Because a lesser percentage of wages is allocated to PRAs under the Sanford bill than to ISSRAs under the Porter bill, the estimated capital formation under the former is $3 trillion by the year 2015, compared to the $4 trillion. The difference, however, is largely offset by the fact that the Sanford bill creates no new federal debt, unlike recognition bonds under the Porter bill.

Additional Comments. Among elected officials, Rep. Sanford is one of the most committed and articulate proponents of reform. His bill is finely crafted. Less aggressive than the Porter proposal, it nonetheless offers a vigorous reform agenda. Although the Sanford bill would produce somewhat less capital formation than the Porter measure, its more modest contribution base raises less dramatic transition-funding questions.

H.R. 3082—Social Security Solvency Act

In the second session of the 104th Congress, Rep. Nick Smith (R–MI–7) introduced a Social Security reform bill, the first comprehensive proposal offered in the House. The provisions and methodology of the initial bill now appear in H.R. 3082, the Social Security Solvency Act of 1997.

As with the Porter and Sanford measures, the Smith bill creates a system of individual accounts, referred to as "Personal Retirement Savings Accounts" (PRSAs). Investment is at an individual's choice, among specified investment companies approved by the Secretary of the Treasury. Investment options are similar to choices under the Federal Thrift Savings Plan for federal employees.

Although an individual has a choice among investment companies, the Smith bill, like Rep. Sanford's, requires establishment of individual accounts for all members of the workforce.

"Carve-Out" Methodology. H. R. 3082 finances contributions to PRSAs through the mechanism of a "carve-out" from the payroll taxes that individuals and their employers continue to pay.

In this regard, the language of H. R. 3028 describes a "reallocation percentage" that each year determines the amount transferred from the Trust Fund to PRSAs. (Because the Trust Fund is an accounting fiction, without marketable assets, the reallocation percentage actually comes from the income stream that payroll taxes continue to provide.) Initially, the reallocation percentage is 2.8 percentage points of the 12.4 percent OASDI FICA tax. In succeeding years, the reallocation percentage increases in proportion to the reduced liabilities under the Social Security system (discussed below), ultimately reaching 10.2 percentage points.

"Offsets." The use of private accounts to ameliorate the financial imbalance of the Social Security system is implicit in all reform proposals that employ private accounts. However, the Smith bill uses a more specific "offset" mechanism to accomplish the dual goals of reducing the imbalance and financing transition to a fully-funded system.

To this effect, H.R. 3062 reduces Social Security benefits in proportion to amounts accrued by an individual's PRSA. Accordingly, persons near retirement, with few years for PRSA accumulations, would receive relatively larger benefits from Social Security. Those with more working years remaining would accrue larger PRSA balances, with greater offset of their Social Security benefits as a consequence.

Deemed Rates of Return. Scheduled reduction in Social Security benefits under the Smith bill is based on contributions actually made to the PRSA, plus amounts deemed to have been earned by such accounts. Actual earnings experience and the resulting size of an individual's PRSA are irrelevant to operation of the offset mechanism. The bill simply assumes that PRSAs will earn 3.7 percent, then reduces Social Security benefits accordingly. As a protective measure, the specified rate is well below historical yields for diversified investment portfolios. As a result, if PRSA investments accrue earnings greater than the assumed rate, individuals would enjoy retirement income greater than Social Security currently promises.

Disappearing Transition Costs. The Smith bill achieves financial balance for Social Security through a program of increasing contributions to individual accounts and decreasing benefits under the current system. The two complementary factors achieve balance for Social Security over an extended period of years. Because of this structure, the Smith bill avoids separate funding for costs of the transition period.

Elective Contributions. In addition to payroll tax carve-outs, H.R. 3082 allows individuals to make elective contributions to PRSAs of no more than $2,000 annually. Half the amount of such contributions is deductible when computing an individual's income tax liability.

Distribution. Payments from PRSAs may begin at the individual's discretion, any time after age 59-and-a-half. Forms of distribution from PRSAs include a broad range of annuities or periodic distributions, including interest-only payments or principal pay-down.

Tax Effects. The carved-out portion of payroll taxes transferred to PRSAs is not additional gross income to an individual. Investment earnings on PRSAs are not taxed. Distributions from the accounts upon retirement are taxed in the same manner as benefits under Social Security. One half of the elective contributions (and earnings) are similarly taxed, with rules for 401(k)'s applicable to the portion that was tax-deductible when contributed. Retirement distributions are taxed like Social Security benefits.

Phased Changes. H.R. 3082 increases the ERA from 62 to 65 by 2011, with gradual increases thereafter. The effect of the increase is minimized by the availability of PRSA's upon an individual's election after age 59-and-a-half. Moreover, the ERA for surviving spouses is set two years earlier than the "normal" ERA.

Separately, the Smith bill adjusts the benefit calculation for future retirees, through changes in bend-points and addition of more earnings years to the defined-benefit formula. Ultimately, all bend-points are reduced, so that Social Security produces a minimum basic benefit.

Like the Sanford Bill, Rep. Smith's gradually reduces combined spousal benefits from 150 percent of the larger PIA to 133 percent.

Disability Coverage. Under H.R. 3082, the Social Security disability program remains a largely unchanged defined-benefit model. In the event of disability, PRSA balances continue to accrue earnings but otherwise are reserved, and not used to pay disability benefits.

Co-sponsors. Co-sponsors of H.R. 3082 include Reps. Porter (R–IL–10), Sanford (R–SC–1), Tom Campbell (R–CA–15), Joe Knollenberg (R–MI–11) and Amo Houghton (R–NY–31).

Compatibility With NAM Principles/Effects on Capital Formation. Rep. Smith's bill is generally consistent with the NAM Principles. The fundamental mechanism employed by the bill in achieving reform—scheduled reduction in Social Security liabilities as PRSA balances accrue—is unique. The mechanism represents an almost "painless" means of financing the transition to a funded system of retirement savings. However, the cost of painless transition is a model that achieves reform very slowly, with an estimate of only $50 to $75 billion additional capital formation by the year 2015. Compared to the Porter and Sanford bills, the cash inflows to capital markets is very modest.

S. 321—Strengthening Social Security Act

Sen. Judd Gregg (R–NH) is among the leading voices in the call for fundamental reform of the Social Security retirement system. Sen. Gregg's bill is the Strengthening Social Security Act of 1997.

The NAM is working closely with Sen. Gregg and his staff on Social Security reform. The senator is a co-chair of the National Commission on Retirement Policy of the Center for Strategic and International Studies, of which former NAM Chairman Warren Batts is an active member. The NAM is aware that S. 321 represents Sen. Gregg's initial approach to reform and that he will introduce an expanded and more detailed legislative proposal later.

Like the Smith bill, S. 321 employs a "carve out" mechanism, for contribution of 1 percentage point of OASDI tax to an individual investment account. Under S. 321, such the account may be invested in one or more mutual funds or pooled investment vehicles similar to options available under the Federal Thrift Savings Plan. The investment fund is the property of the individual wage-earner, and withdrawals may begin at age 59 and a half. The investment accounts supplement a restructured Social Security retirement system, under which benefits are adjusted downward through phased changes in bend-points. The changes would not affect persons aged 55 and older. COLAs would continue to rely upon CPI adjustments, but based on a half-point reduction in the actual index. Retirement age would increase gradually to age 70.

Co-sponsors. Sen. Michael Enzi (R–WY) is co-sponsor of S. 321.

Compatibility With NAM Principles/Effects on Capital Formation. Sen. Gregg's bill is generally consistent with the NAM principles, notwithstanding the fact that the bill is a modest first step toward a consensus on reform.

Other Legislative Proposals

A variety of other proposals affecting the Social Security retirement system have been introduced by members of the House and Senate. Some bills require that the Social Security Administration (SSA) provide greater detail to individuals in their Personal Employees Benefits and Earnings Statement (PEBES). Other proposals would require SSA to make formal recommendations to the Congress on a means of bringing the system into balance. A novel proposal by Rep. Thomas Petri (R–WI–6) would establish private investment accounts of $1,000 for each newborn. A proposal by Rep. Sanford would require disclosure of the employer-paid portion of FICA on pay stubs.

A bipartisan group of eight members of the House have created an informal House Bi-Partisan Public Pension Reform Caucus. Co-chairs are Rep. Jim Kolbe (R–AZ–5) and Charles Stenholm (D–TX–17). The caucus is expected to produce reform legislation that uses the mechanism of individual accounts. Reps. Kolbe and Stenholm are also co-chairs of the CSIS Commission.

Status

The NAM is the acknowledged leader among trade associations and in the greater business community in seeking fundamental reform of the Social Security retirement system. Based on its continuing attention to reform, the NAM believes that a consensus on the mechanisms, policy and politics of reform is likely by the end of the 105th Congress.

NAM Social Security Reform and Economic Growth Series

- "An Overview of Issues and Terminology," NAM Issue Brief, 4/7/97

Statement of National Association of Manufacturers

Principles on Social Security Reform (new policy as approved by the NAM Board of Directors)

BACKGROUND

The Social Security retirement system, as currently structured and financed, cannot pay in full the benefits promised to a significant portion of the American workforce. As a result, reform or restructuring is necessary, if only to bring the current system into financial and actuarial balance.

Even strong supporters of Social Security agree the system needs restructuring. The 1996 Report of the Advisory Council on Social Security presented alternative proposals for reform, the most modest of which would alter Social Security fundamentally. Separately, critics of the current system have offered proposals for significant restructuring. The common element of such proposals is conversion of the system in varying degrees, from an entitlement program to a system of funded retirement savings.

Both defenders and critics of the current system agree that the social and economic issues surrounding reform will stimulate contentious debate. This statement of principles is designed as a framework for evaluating specific proposals as the debate moves forward.

The NAM believes that economic growth is essential for the well-being of this country. By placing ever-increasing burdens on both employers and workers, the maturing Social Security system can only undermine the growth of business, reduce the level of savings and ultimately stifle the economic security of individuals in the workforce. Thus, any reform proposal should foster economic growth for both business and individuals.

Further, any reform proposal should address the inequitable way the current system determines benefits and payroll taxes. Individuals receiving benefits based on contributions to a relatively young Social Security system have enjoyed very generous returns. Without reform, however, future Social Security benefits will provide a negative rate of return and be inadequate as a source of retirement income, thus treating later generations of contributors quite unfairly. This would undercut the very idea of retirement security and undermine confidence in government.

In summary, the NAM believes that generational inequity, the potential of failed public promises and the depressing effects of a maturing Social Security system on U.S. economic growth call for public discussion of these issues, consensus on reform and prompt implementation of the new system.

PRINCIPLES

To this end, the NAM believes that a reformed Social Security system should:

1) Include a needs-based safety net of benefits for those participants financially unable to provide for themselves.

2) Assure that savings for retirement are maintained separately from the needs-based safety net with separate contributions and funding vehicles for these two distinct programs.

3) Permit individuals to accumulate retirement savings based on their contributions to individually-owned accounts with any remaining benefits in such accounts transferable to survivors and heirs.

4) Assure that accumulated retirement savings are for the single purpose of retirement and are not available for any other purpose.

5) Require that individuals' retirement savings accounts are kept separate from the assets of the federal government and are managed and invested independent of government control or influence, for the sole benefit of these individuals and subject to the rules applied to fiduciaries.

6) Take into consideration appropriate coordination with existing federal tax and retirement policy.

7) Begin as soon as possible, given the coming financial shortfalls in the current system and the time needed to develop sufficient savings for the future.

8) Pursue retirement policy goals that various generations consider fair and which offer individuals and businesses the potential of expanding opportunity and economic growth.

Statement of Hon. John Edward Porter, a Representative in Congress from the State of Illinois

Mr. Chairman, members of the Committee, thank you for the opportunity to testify on these important issues. I am very pleased by your proposal to use an expert panel to study Social Security reform. I agree that we need to begin a national dialogue about how the Social Security system should prepare for the challenges it will face when the baby boom generation begins to retire, and that a bipartisan panel to design long-range Social Security reform would serve a necessary role in evaluating potential reforms.

Mr. Chairman, as I've previously stated before this committee, the time is now for Social Security reform. We are on the verge of balancing the federal budget for the first time since 1969 and I believe that it would be a clear abdication of our responsibilities if we do not seize this historic moment to implement a lasting reform of Social Security.

As you know, I have been working on Social Security reform since the 1980's. In this Congress, I have introduced H.R. 2929, the most recent version of my Individual Social Security Retirement Account (ISSRA) Act legislation. This bill, developed with noted economist Peter Ferrara, would create a new retirement option for all Americans and fully address the impending shortcomings of our Social Security system. Rather than using my time here today to advocate any specific legislation, I would like to illustrate my beliefs about how our existing Social Security system should be reformed, and highlight some issues that the proposed expert panel will have to address.

My legislation adheres to three fundamental principles that must be present in any reform to our existing Social Security system. First, existing benefits must be guaranteed without reductions for all current retirees. Second, workers must have the option of staying in existing Social Security, or choose to start an individual account. Finally, we simply cannot levy new taxes to further extend the Ponzi scheme that is our current Social Security system. In contrast, we must consider an eventual tax cut for individual account participants.

The individual accounts created by my ISSRA legislation are not only fiscally sound, but also necessary to any reform that will ensure the survival of our national retirement system. For example, under my plan the Social Security taxes (currently 6.2% of wages paid by both worker and employer, or a total of 12.4%) of those workers who choose to create an ISSRA would be redistributed. Workers and employers would each contribute 5% of wages to an ISSRA (10% total), and workers could make additional contributions of up to 20% of gross income. The remaining 2.4% of the payroll tax would continue to help fund the ongoing obligations of Social Security but could be eliminated 10 years into the transitional period, thus providing a 20% tax cut. Current workers who opt out of traditional Social Security would also receive "recognition bonds" from the government that would pay a portion of their

retirement benefit based on the proportion of taxes they had already paid into the current system.

These individually owned and managed accounts should be governed by the same rules currently utilized for IRA accounts, with the exception of the right to withdrawal. All workers choosing to form an individual account could choose from among approved private investment managers. This safeguard would make the system easy to use, and protect unsophisticated investors from potential fraud and abuse.

Like the current system, employee contributions to ISSRA accounts would not be tax deductible, while employer contributions would remain deductible. Investment returns over the years would be tax free until withdrawal, in a manner identical to today's IRAs. During retirement, only half of the benefits would be included in taxable income.

Benefits at retirement would be based on what the individual's ISSRA account could support. The worker could choose to purchase an annuity or make periodic withdrawals in such a manner that the account would not become exhausted within the beneficiary's lifetime. Retirement age for individuals choosing to utilize an ISSRA would be variable after age 59 and one-half, based on funds available in their account.

As a safeguard, a minimum benefit would be guaranteed for all individuals assuring that no worker would fall below the minimum necessary for a dignified retirement. This benefit would supplement an individual's shortfall in private benefits and would be financed from general revenues and the eventual surplus in the Social Security Trust Fund.

Under my ISSRA plan, and similar reform plans utilizing individual accounts, benefits for retirees would grow enormously. Of particular importance to me is the plight of the working poor, who would receive increased benefits under my plan as opposed to their level of benefits under Social Security. Indeed, the working poor would experience the largest gains in retirement benefits under my plan. For example, an individual working for a minimum wage would receive more than three times the benefits promised by our current system. In addition, these financially vulnerable individuals would also have substantial funds to leave their heirs thereby breaking the cycle of poverty.

Up until now, the costs associated with the implementation of a Social Security reform like my ISSRA plan were thought to be too severe to be addressed through reasonable measures. However, projections of the fiscal impact of this plan have demonstrated that the transition costs can be financed without new taxes or any benefit cuts for current retirees. According to a recently published analysis by Peter Ferrara, transition deficits under my ISSRA plan would disappear within only 14 years.

Indeed, in any reform plan using individual accounts, transition costs can be accommodated through a number of reform measures designed to strengthen the Social Security Trust Fund. The first would be the displacement of Social Security benefits as workers choose the private system. Although starting slowly, these savings will grow substantially over time. Immediate savings would be realized by transferring responsibility for the disability and pre-retirement benefits of all individuals who opt out to private disability and life insurance carriers. Rather than using Social Security funds, these benefits would be accommodated by the private marketplace through Treasury Department approved ISSRA fund managers.

Further savings would result from the waiver of past tax payments. Recognition bonds will be waived for individuals under the age of 30 who choose to utilize the new ISSRAs, and the Social Security Trust Fund will not be expended for their retirement benefits.

Several sources of revenue would also be available to finance the transition. The continuing payroll tax of 2.4% for workers opting out of traditional Social Security would be credited to the Trust Fund for a period of ten years. This revenue, when combined with revenues resulting from the sale of a new issue of "Social Security Trust Fund Bonds" would finance the majority of transition costs.

The net effect of these measures would be a Social Security Trust Fund with net revenues in 14 and a large positive balance after 22 years. Eventually these surpluses would grow large enough to cover losses in revenue from a 20% payroll tax cut and reduce the national debt.

Not directly accounted for in my plan, but substantially aiding the federal government in meeting transition costs would be the generation of substantial new revenues as a result of new savings and investment in a reformed Social Security system. The net increased savings resulting from the implementation of my ISSRA plan or another plan utilizing individual accounts would also lead to significant economic growth, and increases in productivity, wages and jobs.

Clearly, support is growing among the American people for Social Security reform. A recent CATO Institute poll indicated that 69 percent of respondents favor reforms that would allow them to invest privately the amount they pay into Social Security; 74 percent support a plan that gives people a choice of staying in traditional Social Security or moving to a new system; and 77 percent want a system that allows individuals to control investment of their retirement funds. My ISSRA plan includes all of these desirable features, as should any serious Social Security reform proposal. Clearly reform involving optional individual accounts is a comprehensive way to protect the benefits of current retirees, preserve the integrity of the system for future generations, and help sustain the long-term health of our economy.

Our efforts must result in a return to integrity and solvency in a reformed Social Security system that gives every American worker control over his or her retirement destiny.

Thank you, Mr. Chairman, for this opportunity to testify before the Committee. I commend you for your efforts in moving forward with a national debate about the future of Social Security, and support your initiative to create a bipartisan panel to design long-range Social Security reform.

Statement of James L. Martin, President, 60 Plus Association

When I came to Washington as a newspaper reporter in 1962, John F. Kennedy was in the White House, Neal Armstrong had not yet walked on the moon, Strom Thurmond was a Democrat and the problems with Social Security were perceived by few, other than Barry Goldwater.

So, today, August 14, 1997, on the 62nd anniversary of Social Security, the 60 Plus Association becomes the first seniors group to publicly go on record to overhaul the system, releasing a paper it commissioned by economist Richard A. Hart, entitled "Personalizing Social Security: Unplugging the Third Rail." Why did a senior citizens group decide to tackle the issue of Social Security reform? Let me answer by citing a question I'm asked often about the program signed into law by President Franklin Delano Roosevelt on August 14, 1935.

The question is always the same, "Jim, why get involved?" After all, the theory goes, even if the current system is going bankrupt, "your seniors are protected, so why bother with the uncertain future of this politically volatile issue?"

Believe me, it would be easy to take a head-in-the-sand approach as so many do, including, I'm sorry to say, other senior citizens groups. Unfortunately, this attitude leads to a false impression that seniors are "greedy old geezers," a "gimme, gimme, gimme" mentality which I hope to dispel. Seniors who built this country, in Depression and war time, through their blood, sweat and tears, deserve better.

To help dispel that erroneous image, I harken back to some of the advice one particular senior citizen has given me, and still does—my favorite senior—my mom, my sainted mother, if you will, Mary L. Martin, who, in her eighties, still works part-time. Her advice is that seniors' most valued assets are not their social security, their retirement income or their pensions—although these are certainly near the top of their list—but in her opinion, seniors' most valuable assets are their children, their grandchildren and their great grandchildren.

So that's why I decided to involve 60 Plus, a seniors group responsibly trying to find a solution to the problem, for the sake of our children and our grandchildren.

To put it bluntly, Heritage Foundation economist Dan Mitchell said, or perhaps it was another often quoted economist, Americans for Tax Reform's Peter Ferrara, who said: 'Social Security was a Ponzi scheme then. It's a Ponzi scheme now.' But even a Ponzi scheme—borrowing from Peter to pay Paul—worked well in the beginning, not only for Carlos Ponzi but for others, just as the so-called Social Security Ponzi scheme worked well for seniors. But there looms now a "run on the Ponzi bank" as the Baby Boomers prepare to retire.

As Mr. Hart states in his paper, "the Social Security retirement train is on a collision course with demographics. Social Security's pay-as-you-go system, where the taxes of today's workers are transferred to today's retirees, leaves it particularly vulnerable to demographic trends. As Baby Boomers age, life expectancy is rising and birth rates are falling. As the Social Security train heads straight into a demographic wall," Mr. Hart continues, "more and more Americans anticipate the oncoming wreck." Mr. Hart is right. More and more of us recognize the looming crisis.

A recent poll said that a majority of Democrats, for the first time, acknowledged not only that there is a problem with the system, but a majority of Democrats now even favor privatization as a solution. Everybody universally agrees there's a problem. But a solution remains elusive.

For example, President Clinton's Social Security Advisory Council has issued its long awaited report. This 13-member panel of experts readily agreed there is problem but did they agree on a solution? Well, yes and no. They offered three solutions. It's not an exaggeration to say they split three ways from Sunday, six endorsing one solution, five another and two yet a third. Significantly, all three directly, or indirectly, advocated privatization. In 1983, President Reagan's Social Security Reform Commission came forth with its solution to keep the system solvent for, it said, at least another 75 years, well into the next century.

That begs the question, why another Commission so soon in the 1990s, after the 1983 Commission? The answer is that the system is in more trouble than previously thought. The problem is twofold. One: The good news is that we seniors are living longer, due to medical advances and our own better health habits. Two: The bad news is that you younger generations have to pay.

Of course, that's the way the system has always worked. But before there were more than 20 workers, not three, paying into the system for each beneficiary. One other fact that bears noting is that when first enacted, according to the actuarial tables, seniors died at about age 64, or as Mr. Hart so delicately phrases it, most workers were conveniently dead and buried before they could collect their benefits at age 65. As 60 Plus Honorary Chairman, former Indiana Congressman Roger Zion puts it, at a vigorous and robust 75, he has been "statistically dead" for 11 years. Now that seniors are living longer, that places further financial strains on the system. Clearly, a day of reckoning has come. The old fix of just raising taxes, some 51 times in 62 years, cannot continue. There's a limit.

There have been half-hearted attempts in the past to address the problem, half-hearted because not many politicians want to be accused of touching the so-called third rail. You know the old song—Social Security is the third rail of politics, touch it and you die.

Politicians have gotten away with this third rail scare tactic for too long, scaring seniors for political gain. Some of us recall the 1964 Barry Goldwater-Lyndon Johnson Presidential campaign when there was a TV commercial showing a giant pair of scissors cutting a Social Security card with a voice-over solemnly intoning that this would be the result if you voted for Goldwater. Another 1964 TV commercial also stated that a vote for Goldwater could result in U.S. soldiers being sent to fight and die in southeast Asia. Well, as one political wag put it, he "voted for Barry and sure enough, U.S. soldiers were soon sent to fight and die in Vietnam."

So, I would like to put politicians, regardless of party, on notice that seniors are tired of falsely being told their Social Security is going to be taken away. It's more likely that a meteorite will fall on the Social Security Administration building in Baltimore before a politician, of either party, would propose taking away Social Security.

Let me point out how 60 Plus became engaged on this issue. A few years ago the Third Millennium, Generation X'ers in the 18–34 age group, announced the startling news that most X'ers believed more in UFOs (unidentified flying objects) than that the system would be around when they retired. I responded on a radio talk show that seniors are also aware that the system is headed for bankruptcy. Then I added, somewhat flippantly, perhaps, that seniors believe more in the second coming (has it been 20 years this week?) of Elvis Presley than in the system's future solvency and that seniors might also prefer changes. After a few call-ins and further discussion of UFOs and Elvis, I decided to poll senior citizens. Our poll to approximately 100,000 seniors found that, by a surprising 3-to-1 margin, seniors preferred a privatized system. We then commissioned a survey by pollster Frank Luntz, an excerpt of which is in the study we've released. The Luntz poll confirmed our 3-to-1 ratio.

We were called by Insight Magazine, and we debated, in print, our counterpart at the American Association of Retired Persons, Horace Deets, in dueling 2000-word essays. If I could sum up each essay in one word, it would be: AARP—taxation, 60 Plus—privatization. AARP favors the same old solution, tax increases, while 60 Plus looks for new solutions.

Will privatization work? The privatization role model is the Chilean system. During the 1983 Social Security study, when Chile was mentioned as a solution, the status quo seekers dismissed their system as a new and unproven experiment. But, fast forward 15 years later and Chile now has an amazing track record of success. Now the status quo seekers try to demonize the word "privatize," implying that you have to be a stock market expert or the big boys on Wall Street will fleece you. Nothing could be further from the truth. There are a lot of workers in Chile who can't play the stock market but who proudly walk around with a passport-sized book with their name on it, keeping track of their investments. That is one of the reasons we use the word "personalize" because the system would allow each and every individual to take "personal" control of his or her own financial destiny.

Since 60 Plus is nonpartisan, we credit legislators from both parties for coming up with innovative ideas. One is Democratic Sen. Bob Kerrey of Nebraska, from whom we borrowed the word "personalize." Another suggestion, by one of the Generation-X'ers, is to "modernize" the system. Many others on Capitol Hill deserve credit, including Republican Congressman Jim Kolbe of Arizona and Democratic Congressman Charlie Stenholm of Texas, co-chairs of a public pension reform caucus which now numbers more than 70 members of Congress, equally represented by both parties. Michigan Congressman Nick Smith has introduced legislation to address the problem, as have Reps. Mark Sanford of South Carolina, David McIntosh of Indiana, Mark Neumann of Wisconsin and John Porter of Illinois. Others safeguarding Social Security include House Ways and Means Committee Chairman Bill Archer of Texas and Subcommittee Chairmen, Reps. Bill Thomas of California, Dennis Hastert of Illinois and Jim Bunning of Kentucky. Surely, the latter, Jim Bunning, the big, burly Hall of Fame baseball pitcher—known as a fierce competitor in his playing days and now the father of nine and grandfather of 31 (at last count)—would be a formidable opponent for those who try to demagogue Social Security as they did in the 1980s when some Members of Congress courageously talked about reform in order to save it.

More than two dozen countries in South America, Europe and Asia, have adopted, or are in the process of adopting, a Chilean-style system. Even socialist Sweden is going that route. And here, workers in three Texas counties, before a loophole in the law was closed, opted for privatization and their rate of return is making for a lot of serious discussion as they prepare for retirement. Moreover, a resolution recently passed both the House and Senate in Oregon asking the state to opt out of the Social Security system and create a separate retirement system for state workers.

So the slight spark across the sky of the Chilean experiment has become a bright constellation. It's a success story that I believe, with all my heart and soul, can be a guide for our own troubled system.

Incidentally, in the old days, the father of the Chilean plan, Dr. Jose Pinera, literally visited Washington in the dead of night because his untested plan was so controversial. But a few years ago, the Cato Institute gave a dinner in his honor and a number of Members of Congress allowed their names to be placed on the host committee. What a change in attitude. Of course, it was not lost on them that this former minister of labor was elected to office himself, with a major plank in his platform his plan to privatize social security.

Having read an article years ago by Ed Crane, President of the Cato Institute, about the social security problem, we started searching for solutions. We kept being referred back to the Cato Institute itself, which has taken a pioneering road on this issue for more than a dozen years. One name kept coming up, time and again. That name was Michael Tanner, Cato's Director of Health and Welfare Studies, and the author of several books on health and welfare reform. Mr. Tanner has worked on the Social Security issue extensively, to say the least. Spoken on it. Written on it. Debated on it, around the world, often with Dr. Pinera at his side. That's why 60 Plus, particularly Roger Zion and I, are so pleased that Mr. Tanner has not only eloquently embraced this new plan Mr. Hart proposes, but has joined us at today's official release of the proposal, along with an equally strong endorsement by today's other featured speaker, Fund for a New Generation's Adam Dubitsky.

Richard A. Hart takes up the challenge to find a solution in an insightful paper showing how Personal Retirement Accounts (PRAs) can assure both dignity and comfort for future generations of senior citizens. This paper, a variation on a theme advanced by others, should continue the dialogue on a system which urgently needs reform.

To those who fear Social Security's ruin, wise seniors know that there is no Social Security Trust Fund. 60 Plus calls it the Social Security Bust Fund as surpluses are used for other government programs. As Democratic Senator Ernest Hollings of South Carolina has said, "There is no trust. There is no fund." We need to alert people to keep at arm's length those politicians who spread fear among seniors, as we stand at a crossroads to which direction Social Security reform should go.

In the 60 Plus Association's opinion, some form of 'personalization' remains the best and most feasible option. We must guarantee present retirees their benefits as part of a government promise to them, but we must also safeguard current generations paying into Social Security system so that the benefits will be there when they retire.

On August 14, 1935, President Roosevelt signed into law the Social Security Act. On May 2, 1997, the FDR Memorial was opened here in Washington, D.C. The Social Security system helped seniors escape poverty, but we now know there are major problems facing future generations. What more lasting commemoration to FDR can we embrace than the adoption of a system which will save it for a new age, a new era, and a new population.