HEARING ON SOCIAL SECURITY'S FINANCES

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

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HEARING ON SOCIAL SECURITY'S FINANCES

FRIDAY, JULY 8, 2011

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

The subcommittee met, pursuant to notice, at 9:02 a.m., in Room B–318, Rayburn House Office Building, the Honorable Sam Johnson [chairman of the subcommittee] presiding.

[The advisory of the hearing follows:]

HEARING ADVISORY

Chairman Johnson Announces Hearing on Social Security's Finances

Friday, July 08, 2011

U.S. Congressman Sam Johnson (R–TX), Chairman of the House Committee on Ways and Means Subcommittee on Social Security announced today that the Subcommittee will hold a hearing on Social Security's current benefit expenditures, proposed changes to future benefits and the impact those changes would have on the program, future beneficiaries, workers, and the economy. **The hearing will take place on Friday, July 8, 2011 in B–318 Rayburn House Office Building, beginning at 9:00 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. A list of invited witnesses will follow.

BACKGROUND:

The Social Security Act (P.L. 74–271) was signed into law by President Franklin D. Roosevelt on August 14, 1935. Initially, Social Security was focused on the income needs of retired workers age 65 and older. Soon, protections for other vulnerable populations were added. The Social Security Act Amendments of 1939 (P.L. 76–379) shifted the emphasis from protection of the individual worker to protection of the family by authorizing payments to the spouse and minor children of a retired worker, (dependents' benefits) and survivors' benefits to certain family members in the event of the death of a worker. The Social Security Act Amendments of 1956 (P.L. 84–880) created the Social Security Disability Insurance (SSDI) program to provide protection against economic insecurity resulting from a disabled worker's loss of earnings.

Social Security continues to play a key role in preserving the economic security of Americans. About one-in-six Americans receives a Social Security benefit today. For a third of the elderly, Social Security is virtually their only income. Poverty rates among the elderly fell from 35.2 percent in 1959 to less than 10 percent in 2008—a reduction of almost three-quarters in the last 49 years. Younger workers and their families receive valuable disability and survivors insurance protection. In fact, about one-in-three Social Security beneficiaries is not a retired worker.

According to the 2011 Annual Report of the Social Security Board of Trustees, in calendar year 2010, 54 million retired workers and their families, disabled workers and their families, and survivors of deceased workers received $713 billion in Social Security benefits. By 2035, Social Security costs as a percent of GDP will increase 28 percent, from 4.85 percent of GDP in 2011 to 6.22 percent of GDP in 2035.

The 2011 Annual Report of the Social Security Trustees again highlighted the financing challenges facing the Old Age and Survivors Insurance (OASI) and the Disability Insurance (DI) programs. The trustees project permanent and growing cash flow deficits and estimate that by 2036 the combined OASI and DI Trust Funds will be exhausted. At that point, revenues would cover only 77 percent of benefit payments. The DI Trust Fund is projected to become exhausted in 2018, at which time revenues would cover only 86 percent of benefit payments. The Public Trustees expressed the need for action soon in order to be able to protect vulnerable populations and those at or near retirement age.

The Social Security actuaries have estimated a number of proposals to adjust benefits, including those put forward by the President's Fiscal Commission, including: making the retirement benefit formula more progressive, providing an enhanced minimum benefit for low wage workers, altering Social Security's Cost of Living Adjustment (COLA) by shifting to the "chained CPI," increasing benefits for aged beneficiaries, and gradually increasing the early and full retirement age.

In announcing the hearing, Subcommittee Chairman Sam Johnson (R–TX) stated, **"We need to make sure Social Security is safe, secure and sustainable. Congress must act and the sooner we do so, the sooner we can protect those who are most vulnerable, including current retirees and those nearing retirement. And for younger workers and families, we have a responsibility to provide certainty about the future of their Social Security.**"

FOCUS OF THE HEARING:

The hearing will focus on Social Security's benefit expenditures, how benefits have changed over time, options for change, and their impacts. Also, efforts by the SSA to inform workers of their future benefits through the Social Security Statement will be examined.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, **by the close of business on Friday, July 29, 2011**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721 or (202) 225–3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item 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. I69

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies 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. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

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

Chairman JOHNSON. Good morning to all of you. We are going to try to crank this hearing up on time, so I am going to bring the hearing to order.

We heard a few weeks ago from the public trustees that unless Congress acts, in 2036 Social Security revenues will only cover 77 percent of promised benefits. Congress needs to act, and the sooner we do the sooner we can protect those who are vulnerable.

Republicans and Democrats agree on this much: current benefits should not change for those in or near retirement. All their lives, they have worked hard and played by the rules. They deserve the peace of mind, knowing that Social Security will be there for them.

But young people deserve peace of mind, too. At our last hearing, the subcommittee looked at options to raise payroll taxes to address these challenges, and heard that these options don't promote savings, reward, work, or permanently fix Social Security's shortfall.

With chronic unemployment, falling incomes, and so many young people unable to find work, nothing we do should make it harder for Americans to find good-paying jobs. Today we will learn more about Social Security's benefits, proposed changes to benefits, and their impact on future beneficiaries, workers, Social Security's finances, and economic growth.

Since the beginning of the program, benefits have been based on workers' lifetime earnings. The formula that determines benefits is designed to replace a higher percentage of career earnings for lower earners. Benefits are increased almost every year to keep pace with inflation through cost of living adjustments.

Social Security first paid monthly benefits in 1940 to a lady named Ida Mae Fuller, who worked for just 3 years under Social Security. Her first monthly check was $22.54. But her check was not indexed for inflation, and her lifetime benefits for her and her age group were soon supported by a surge of young workers. During her lifetime, she collected nearly $23,000 in Social Security benefits.

Today 55 million Americans receive benefits, averaging over $1,000 per month. By 2035, over 90 million will receive benefits. Benefits are more generous, but the number of beneficiaries will rise much more rapidly than the number of workers, now struggling in today's economy, who will need to support them.

The reality is there is simply not enough young workers to support the Baby Boomers who are retiring at the rate of 10,000 a day for the next 19 years. Social Security also provides essential income to workers' families. Spouses, children, and survivors are all eligible for benefits. In fact, 1 out of every 13 beneficiaries receives family benefits.

Many of our witnesses will review how America and Social Security have changed over the past 76 years. Today, people are just living longer. That's nice, isn't it?

[Laughter.]

Chairman JOHNSON. When Social Security was created, Americans lived, on average, to 64. And Social Security's retirement age was 65. According to the actuaries, had Congress tied Social Security's full retirement age to increases in life expectancy from the beginning, instead of being 66, it would be close to 71. However, I know that the life insurance guys tell you you're going to live to be 100 nowadays. No wonder members on both sides of the aisle have expressed support for raising the retirement age.

In 1935, Social Security was born amidst a great economic crisis, The Great Depression. Then none other than FDR said that Social Security can furnish only a base upon which each one of our citizens may build his individual security through his own individual efforts. In other words, Social Security benefits were intended to provide a modest safety net. In these challenging economic times, FDR's statement still rings true. While everyone who pays into Social Security should receive a benefit, not everyone relies on Social Security. Whatever solutions Congress may ultimately consider, we must protect those who depend on Social Security the most.

In the meantime, until Congress acts, workers and their families are challenged to plan for their retirement. An important tool in their planning is the Social Security statement, which includes a worker's earnings history, and estimated future Social Security benefit. It's the main document that Social Security uses to communicate with over 150 million workers about their future benefits. Today, we will hear from GAO regarding the results of their review which was done earlier this year. New Americans want, need, and deserve this certainty that Social Security will be there for them. I am confident, by working together, we can provide that certainty.

I thank all our witnesses for joining us today, and look forward to hearing their expert advice on ways to move forward.

And we are expecting votes around 10:00 or 10:15 this morning, so we are going to try to work you all in, and I would implore all our members to commit to 5 minutes.

You are recognized for five minutes, Mr. Becerra.

Mr. BECERRA. Mr. Chairman, thank you very much. Today's hearing illustrates a basic question of right and wrong. Social Security has never contributed a dime to the nation's $14.3 trillion debt, not a penny to our federal deficit this year, or any year of our nation's history. Yet, some in this town insist that we should cut Social Security benefits for seniors to pay for these deficits, deficits run up over the last 10 years, principally as a consequence of fighting two unpaid-for wars, and giving unpaid-for tax cuts to millionaires.

Most Americans would say it is immoral and un-American for this congress to tax Peter to pay for Paul's sins, to make retirees, widows, disabled workers, and children who rely on Social Security pay for the Bush debt. How can that be right?

Here is a simple truth. Today, Social Security has over $2.6 trillion in its trust fund, entirely generated by worker contributions.

Over its lifetime, Social Security has earned $14.6 trillion, and only spent $12 trillion. Do the math.

As a result, Social Security has enough income in reserves to pay full benefits to our seniors for the next quarter century, and about 3/4 of benefits after that. Social Security is not broke, and it will not go bankrupt. That is because, unlike the federal operating budget, Social Security cannot deficit spend. Nor will it ever face its own debt ceiling crisis.

Our challenge is to address a manageable shortfall in Social Security after 2036. The size of that shortfall is about the same size as the cost of keeping in place the Bush tax cuts for just the wealthiest two percent of American taxpayers.

Preserving Social Security for the future is simply a matter of priorities, a matter of right and wrong. What is wrong is cutting Social Security benefits for people who worked hard all their lives to earn benefits for themselves and their families. It's especially wrong if you are cutting their Social Security in order to pay for tax cuts for millionaires.

Social Security benefits are very modest, and most seniors have limited incomes. The average benefit for a retiree is $14,000 a year. Six out of ten seniors rely on Social Security for more than half of their income, and nearly a third have virtually nothing else to count on. As people get older and begin to outlive their other retirement savings, they begin to rely increasingly on their Social Security paycheck.

The benefit cuts Republicans have put on the table this year would have devastating consequences for today's seniors, and for the 155 million future beneficiaries who are paying into Social Security today.

In our last hearing, we learned from Social Security's chief actuary that, under the Social Security privatization bill, H.R. 2109, introduced by Congressman Pete Sessions and other members of the House Republican leadership, Social Security's ability to pay benefits to current beneficiaries would be "severely compromised."

If we enacted the Republican bill, current seniors might not get the monthly checks they earned through a lifetime of work. In addition, the chairman of the House Budget Committee, Republican Paul Ryan, has a plan to privatize Social Security, to raise the retirement age, and to cut benefits for the middle class. And House Republicans recently voted to create a special fast-track process for Social Security cuts.

It doesn't end there. The Republican Study Committee, which represents about three-fourths of my colleagues on the Republican side, including majority leader Eric Cantor, has proposed raising the retirement age to age 70, with benefit cuts starting in just 3 years, 2014, at a time when Social Security will have $3 trillion in its trust fund. Their plan would cut benefits for middle income workers, and it could easily cost them about $3,400 a year when they retire.

Mr. Chairman, I am grateful that we are holding a hearing on Social Security benefits. We need to have a comprehensive discussion on all of the options available to us to strengthen Social Security. Where you stand on Social Security and where you fall on the ways to strengthen it will speak volumes about your priorities for our country and for the generation that built the America we so love.

And with that, Mr. Chairman, we look forward to the testimony of our witnesses.

Chairman JOHNSON. Thank you, Mr. Becerra. You know, $3 trillion is a lot of money. You can't pay benefits in bonds. Social Security needs cash. And I don't know where Treasury gets the cash to redeem the bonds.

In times of this deficit, Treasury has to borrow it. Today, the U.S. borrows $.40 for every dollar it spends, much of it from the Chinese, and sends the bill to our children and grandchildren. And——

Mr. BECERRA. Mr. Chairman, if I—may I comment on that?

Chairman JOHNSON [continuing].—Part of that is to cover Social Security——

Mr. BECERRA. So this is a piece of paper, like the Treasury certificate that Social Security has. It's simply a piece of paper. It says $20 on it. It's worth $20 only if the full faith and credit of the United States backs it up.

This is a savings bond, a Treasury certificate my daughter got when she was born 16 years ago. It is worth—supposed to be worth—$50 if she cashes it in when she turns, I think it is, 18. It is a certificate. It is based on the full faith and credit of the United States. It is worth money, versus this envelope or this piece of paper, simply because we say we are going to have the full faith and credit of the United States back it up.

But whether it is this or this, or the Social Security's Treasury certificates, or the ones that China has, or Japan has, we either are going to follow and live up to our obligations and our debts, or we are not. But to say that the trust fund's $3 trillion are mere paper, but this paper is worth money and China's paper is worth money, I think is an egregious way to tell seniors that they have paid into a system, and to make them believe that it is not there for them, and for our kids, as well.

My daughter relies on this $50 savings bond just the way that she is going to rely on Social Security.

Chairman JOHNSON. Okay. Before we move on to our testimony today, I want to remind our witnesses to limit their oral statements to five minutes, please, and be advised that, without objection from this gentleman here, your statements in writing will be entered in the record.

Mr. BECERRA. No objection.

Chairman JOHNSON. No objection. We have one panel today. Our witnesses are seated at the table, and they are Sylvester Schieber, an independent consultant from New Market, Maryland. Yes, thanks for coming to Washington.

Thomas Terry, president, T. Terry Consulting, on behalf of the American Academy of Actuaries.

Eugene Steuerle, Ph.D., senior fellow, Urban Institute.

Joan Entmacher, vice president for family economic security, National Women's Law Center.

Charles Blahous, Ph.D. research fellow, Hoover Institute.

And Barbara Bovbjerg, Ph.D., director for education, workforce, and income security, U.S. Government Accountability Office.

Thank you all for being here.
Dr. Schieber, you may proceed.

STATEMENT OF SYLVESTER J. SCHIEBER, PH.D., INDEPENDENT CONSULTANT, NEW MARKET, MARYLAND

Mr. SCHIEBER. Good morning, Mr. Chairman, Mr. Becerra. Thank you very much for inviting me here today, Members of the Subcommittee.

My remarks today will focus on the need to modernize Social Security's benefit portfolio to improve the effectiveness with which the program meets one of its long-term specified goals, one of the ones you mentioned in your opening remarks, Mr. Chairman, the redistributive character of the program.

In the opening analysis in my submitted remarks, I show how the retirement system has gotten more costly over time. The results in table one of this submission show that an individual retiring today will have borne payroll taxes relative to lifetime earnings more than six times those of a worker retiring in 1955.

In your opening remarks you mentioned Ida Mae Fuller getting the first Social Security benefit. When she retired she had paid $25 in lifetime taxes into Social Security. She did fairly well under the program. Today the participants are not doing quite as well.

If you add in the supplemental cost of saving for an adequate retirement income, the cost of retirement today has tripled over what it was in 1955. These costs will automatically continue to climb under current law for at least another decade. Add in health costs, and today's workers are facing claims exceeding one-third of their lifetime pay, just to cover retirement and health costs. And that is before we address the under-funding of Social Security and Medicare that I know you are all aware of.

While retirement security is important, we should not lose sight of the need to preserve the prospects of some prosperity gain for workers in the future. We cannot simply address our financing issues by throwing more costs at workers. Some of our financing shortfalls can be addressed by making Social Security more consistent with the stated goals, and modernizing it to correspond with 21st century realities.

The benefit formula established in 1935 was intended to provide relatively higher benefits compared to earnings for low earners when you compare it to those with higher earnings. At least a dozen different times since 1935 Congress has reaffirmed that commitment.

Table two in my formal submitted remarks shows estimates prepared by the Social Security actuaries on what they call the system's money's worth. The calculations are for persons born in 1949 and compare the value of their expected lifetime Social Security benefits at age 65 to the accumulated value of payroll tax collections on lifetime earnings.

Numbers in the table that are greater than one suggest some segment of the 1949 birth cohort will receive more in expected lifetime benefits than the value of their contributions. Those numbers less than one suggest the opposite. If you look at the values for one-earner couples, you will see that they can expect to do much better at every earnings level, on average, than their single counterparts or married individuals in two-earner couples.

Where the one-earner couple is a higher earner, the system provides relatively higher benefits than for low earner single workers or two-earner couples. In a program that is intended to pay relatively higher benefits for lower earners, this is an inconsistent result with the stated goal.

In the third table in my presentation I factor in supplemental savings, the tax benefits for employer-sponsored savings, and this result carries through the whole system.

In my formal statement I cite two significant empirical studies that have documented that the spousal benefit feature is essentially defeating the redistributive feature embedded in Social Security's benefit formula. The reason that these results have arisen in recent decades is because the spousal benefit tends to be concentrated among higher earners. Families with low earning levels often have little choice but to send both members of a couple to work in order to make ends meet.

Partly, this is so today to a greater extent than in the past, because many modern workers have to surrender so much more of their earnings to cover Social Security and their own retirement savings and health insurance costs that economic circumstances leave them no choices, but that both spouses have to work to cover family needs.

For most workers today, the spousal benefit has little or no economic value, but renders their treatment unfair, relative to those who benefit from it and pay nothing extra for it. Either we should quit the pretense that Social Security is redistributive, as Congress has repeatedly specified in the benefit formula, or we should make the actual structure fit the stated intent.

Another change to the benefit structure that is important then is—and should be considered in modernizing Social Security—is the introduction of a true joint and survivor benefit for married couples. The operation of the spousal benefit partially covers this void now. But by perpetuating its inequitable existence, and mitigating the need for a joint survivor benefit, existing policy propagates another inequity.

Today the longest-living spouse in a two-earner couple receives little or no benefit in consideration of the deceased spouse's income and participation in Social Security. This makes the benefit in single-earner couples an even more glaring problem.

The Retirement Equity Act of 1983 required that private employer-sponsored pensions offer a joint and survivor benefit, and the only way that it can be waived is by both persons actually waiving the benefit. It can be financed within the structure of the benefit itself; it does not have to add expense to Social Security's cost. It would modernize the system, it would make it more equitable, and it would also be more efficient.

Thank you, Mr. Chairman.

[The statement of Mr. Schieber follows:]

Social Security Benefit Expenditures, How Benefits Have Changed Over Time, Options for Change and Their Impact

Testimony of Sylvester J. Schieber, PhD
Independent Consultant

Before the Subcommittee on Social Security
Committee on Ways and Means
U.S. House of Representatives

July 8, 2011

Summary

Average wage workers who are coming to retirement today will have laid aside three times as a much of their lifetime earnings to secure their retirement benefits as similar individuals retiring in 1955 and nearly twice as much as one retiring in 1975. Today's retiree will have given up nearly an added six years of earnings for retirement compared to the 1955 retiree. Add in the growth in health costs and the higher costs are more than nine years of earnings. These costs are projected to go considerably higher as a share of earnings in the future and we must consider ways to moderate their further growth or we threaten the prosperity of future generations.

Beyond considerations of cost, there are equity concerns raised by the current benefit structure in an economy that has changed in fundamental ways since the beginning years of the program when the current benefit architecture was put in place. We need to modernize the system.

The spousal benefit that was intended for stay-at-home spouses who were homemakers and guardians of their children made sense in 1939 when few married women worked outside the home. In modern times, the benefits delivered by this feature are meaningless to most women and defeating the redistributive characteristics of the plan designed into the benefit formula. These latter features have been repeatedly reaffirmed by Congress over the decades.

In lieu of the spousal benefit it is time to add a joint and survivor feature for married couples. Congress mandated such a benefit as the normal form of annuity for private pensions in 1983 because of the economic and equity benefits provided by such a feature. This addition does not need to raise program costs but could help to ameliorate poverty rates among elderly widows and make the total benefit more equitable to married working women who, along with single workers, are currently treated inequitably under the current spousal benefit.

Statement

Mr. Chairman and members of the Subcommittee on Social Security of the Ways and Means Committee of the U.S. House of Representatives, thank you for inviting me to testify before you at this hearing regarding Social Security benefits. The focus of my remarks is on the need to consider some benefit changes to the program and two specific aspects of Social Security's benefit portfolio that should be modernized to improve the effectiveness with which the program meets one of its specific long-term goals. This goal has been repeatedly reaffirmed by legislative updates and is a central element of recent recommendations made by both the National Commission on Fiscal Responsibility and Reform and the Debt Reduction Task Force.

Social Security was conceived and became law in the midst of the Depression. It was signed into law on August 14, 1935 and the first benefit check was paid in January 1940. Robert M. Ball, former Social Security Commissioner, was arguably the most influential figure in the development and support of Social Security from the 1950s through 2008 when he passed away. His assessment of the program was that:

> The pattern of the program was well set in the [19]39 amendments. One way to consider the whole history of the program from then on is as filling in the structure that had been created in '39. You had to extend coverage; you had to create programs for the two risks that were not included, disability and health--health insurance for the elderly, at least. But everything was an elaboration of the basic structure and ideas.[1]

Some people point to the fact that Social Security's benefit structure has been relatively stable since the 1930s as a great achievement. If we were a society with unlimited resources, I might share that view but we are not and I do not. The world has changed dramatically since 1939 and the cost of providing a benefit portfolio that made sense then has come now to be overly burdensome for many workers. It is important to keep in mind that Social Security is just part of the package that workers must finance in protecting against what President Franklin Roosevelt called the "vicissitudes of life."

Growing Costs Swamping Workers' Compensation Growth

Many people today have a strong intuition that our financing of security benefits is taking an ever larger share of our resources but lack the evidence to document their conclusion. In order to understand what is behind the intuitions consider the case of a worker, Jane, who begins her career at age 21 and earns average wages in each year until reaching age 65 when retiring and claiming Social Security benefits.

If Jane reached age 65 in 1955, she and her employer(s) would have paid the equivalent of 2.1 percent of her lifetime wages to finance her Social Security. However, if she reached age 65 at the beginning of 2011, the full career cost of payroll taxes on her earnings would have been 13.1 percent of her lifetime pay. The average cost rates at various other years when she might have turned age 65 are shown in the second column in Table 1. At almost every point in time, she would have qualified for a benefit that was around 40 percent of final pay but the cost would have varied significantly depending on when she retired. The Jane who retired in 2011 would have paid more than 6 times as much as the one who retired in 1955.

Over the period covered in Table 1, Jane's retirement period would have increased by about four years between 1955 and 2011 because of earlier retirement in the later years. Her improved life expectancy over the intervening period would have added a couple more years. The third column in Table 1 shows the results of some calculations of the savings rates required to finance a benefit for Jane that would replace an additional 40 percent of her final earnings as a supplement to her Social Security pension. In developing the calculations, I assumed that she received pay increases of 4 percent per year throughout her career and that her retirement savings were invested at a constant 7 percent return each year. I assumed that her retirement benefit from this portion of her retirement portfolio would increase 2 percent per year during her retirement to cover at least part of the cost of inflation.

Table 1: Cumulative Lifetime Employee plus Employer Social Security Payroll Taxes as a Percentage of Cumulative Lifetime Earnings, Supplemental Retirement Savings Rate, Employer Average Contributions for Health Benefits and Totals as a Percentage of Pay for Workers Retiring at Various Specified Dates

Year reaching age 65	Lifetime payroll tax as percentage of lifetime earnings	Required supplemental savings rate	Total retirement cost per year	Annual health benefits cost	Retirement plus health costs
	(All amounts stated as a percentage of salary or wages)				
1955	2.1	4.6	6.7	1.0	7.7
1965	3.6	5.4	9.0	2.1	11.1
1975	5.9	5.9	11.8	3.5	15.3
1985	9.0	6.1	15.1	5.6	20.7
1995	9.9	6.7	16.6	8.0	24.6
2005	12.0	7.1	19.1	9.9	29.0
2011	13.1	7.5	20.6	10.6	31.2

Source: Sylvester J. Schieber, *The Predictable Surprise, the Demise of the 20th Century Retirement System and the Way Forward* (New York: Oxford University Press, forthcoming in 2012), Chapter 21.

Column 3 in Table 1 shows that for the Jane retiring in 1955, she or her employer would have needed to be putting aside 4.6 percent of her pay each year in her career under my assumptions to finance her supplemental benefit. For the one retiring in 2011, this would have increased to 7.5 percent of pay because she would have had a shorter number of years over which to accumulate her savings and a longer number of years in which she was depending on them. The change in the cost of the supplemental savings rate is much smaller than in the case of Social Security because of the relative efficiency of funded pension systems.

The fourth column in the table helps to explain why many people today are finding the financing of their retirement a more daunting task than our parents and grandparents faced. That column sums the percentage of payroll costs that workers of various vintages experienced from Social Security and needed supplemental savings. For the individual retiring in 1955, a combination of Social Security and roughly a matching supplemental benefit would have cost him or her something less than 7 percent of lifetime earnings. For a similar worker retiring in 2011, the cost would have been nearly 21 percent of earnings. To put this in a slightly different context, the generation coming to retirement in 2011 would have had to surrender roughly six additional years of their lifetime earnings to meet their retirement needs than the one that retired in the mid-1950s. Some of this added cost was self induced because of earlier retirement ages despite increasing longevity but this is a relatively small part of the cost increases in the table.

The fifth column in Table 1 has nothing to do with retirement, per se, but it is centrally related when we consider that workers' health benefits are also financed out of the same compensation budgets that are used to finance retirement. The numbers in this column of the table are the average total employer costs for benefits provided under their health care plans stated as a percentage of total employer costs for cash wages in the years listed in the left column of the table. These are not lifetime averages as the previous columns were but the costs toward the end of workers' careers at the respective points in time. These averages are based on total wages paid to all workers including both those who were participating in an employer-sponsored health benefit plan and those who were not. The average costs for those in plans would have been considerably higher if the non participants' pay was removed from the calculations. The data in the table also does not reflect the workers' own premium payments and out-of-pocket expenses when they enroll and utilize employer-sponsored health benefits.

The right-hand column in Table 1 sums up the retirement costs from the fourth column and the health benefit costs from the fifth. The combined components in the table suggest that the cost of providing workers today retirement and health benefits commensurate with what earlier generations enjoyed, on average, will cost somewhere around the equivalent of 31 percent of their pay a full 24.5 percent of pay more than it cost to cover these contingencies for the worker coming to retirement in 1955. A cost of 23.5 percent of pay over a 40-year career is the equivalent of 9.5 years' pay—a significant cost from almost any perspective.

From young workers' perspective, the payroll tax cost in the second column of Table 1 will climb to 15 percent of lifetime earnings by 2020 and health costs, unless we stem health inflation, could climb to 14 percent of earnings. The total costs will climb to as much as 36 percent of pay by 2020 under conservative assumptions. If we simply resolve Social Security's financing problems by waiting until the trust funds are nearly depleted and then raise tax rates to meet shortfalls, we would add another 4 percent to the Social Security payroll tax. The Medicare claim could be even larger. I believe it would be unconscionable to do this to our grandchildren. Instead we ought to look to ways to modernize our Social Security benefit structure to meet our stated goals and save some resources at the same time.

Social Security Benefit Progressivity, an Unachieved Goal

In 1935, Congress adopted the Social Security Act that called for workers with lower lifetime earnings to receive relatively larger benefits than workers who had higher earnings. On 12 subsequent occasions, the Congress has reaffirmed that redistributive benefit structure when it passed Amendments to the Act.[2]

For years, the Social Security actuaries have developed analyses of "money's worth" for program participants. In these analyses, they focus on specific birth cohorts and consider their lifetime contributions to the system, including those made by their employers on their behalf, accumulated with interest. They compare the lifetime contributions in each birth cohort to their lifetime benefits in present value terms. In terms of contributions, all payroll taxes—both the worker's and employer's share—for Social Security benefits are included. The contributions and accumulating balances are credited interest at the rates that the bonds in the trust fund earned interest. In developing their estimates of Social Security money's worth values for hypothetical workers, the actuaries account for the comprehensive package of benefits provided by the system including retirement, disability and the various forms of survivor benefits provided by the system. The most recent analysis of this sort included results for 11 different birth cohorts ranging from the first born in 1920 to the last born in 2004.[3] For this discussion, I focus on the results for the 1949 birth cohort. The results of the money's worth calculations for the 1949 birth cohort are in Table 2.

Table 2: Expected Value of Social Security Benefits Relative to Accumulated Lifetime Contributions with Interest for Hypothetical Workers Born in 1949, Retiring at age 65 by Earnings Level

	Single male	Single female	One-earner couple	Two-earner couple
Very low	1.25	1.41	2.47	1.41
Low	0.91	1.02	1.81	1.03
Medium	0.67	0.76	1.36	0.77
High	0.56	0.63	1.12	0.64
Maximum	0.46	0.52	0.92	0.52

Source: Michael Clingman, Kyle Burkhalter, Alice Wade, and Chris Chaplain, "Money's Worth Ratios under the OASDI Program for Hypothetical Workers," *Actuarial Note* (Office of the Actuary, Social Security Administration, July 2010), no. 7, pp. 9-10, found at: http://www.socialsecurity.gov/OACT/NOTES/ran7/index.html.

The workers in the 1949 birth cohort were assumed to begin working at age 21 in 1970 and to work continuously until the end of 2013 and to retire on their 65th birthday at the beginning of 2014. The entry of 1.25 for the very-low earning single male implies that such an individual can expect to receive a benefit from Social Security that is 1.25 times the value of his lifetime contributions plus his employer's accumulated at trust fund interest rates. At each higher lifetime earnings level, the value of the benefit relative to contributions falls. For a worker at the maximum earnings level throughout his career, the expected benefit is just 46 percent of the value of lifetime contributions. This clearly reflects the redistributive characteristics that the original plan architects and President Franklin Roosevelt intended when they put the initial legislative proposal together. It has varied somewhat over the years but the changes have been marginal. The fact that the expected value of lifetime benefits is less than the value of lifetime contributions on a worker's earnings in several cases is related to the pay-as-you-go financing of the system.[4]

The benefits for single women relative to their contributions are somewhat higher at every earnings level than they are for men. At a given earnings level, their accumulated contributions would be equal under the assumptions and methods used to calculate the ratios in the table. The reason that single women appear to do somewhat better than men is because of their longer life expectancy. They can expect to receive an extra three years of benefits, on average than men. It does not mean that they receive higher benefits at the date they retire or in any month during their retirement. These ratios can serve a valuable purpose in thinking about the program but they should not be the only thing considered when thinking about it.

One-earner couple's benefits are by far the most generous in the system. Total benefits are 150 percent of the benefit payable to the worker, actuarially adjusted for the age at which benefits are taken, and will continue at that level until the first member of the couple dies; then it drops to 100 percent of the worker's benefit. In most cases where there is only one member of a couple who has worked in covered employment during their lives, it will be the male who is the worker. The money's worth of the couple benefit for one-earner couples doubles that of the single male. Where both members of a couple work, the money's worth is equivalent to that achieved by single women. Given the longer life expectancy of women, when the husband dies in these types of cases, the wife's benefit is the higher of the two paid to them when both are alive. In most cases, that would mean an increase in the benefit for the surviving widow when her husband dies. The couple's results depend on their respective earnings. If one worker has very high and the other very low earnings, the results would more closely approximate the situation of the couple with a single-earner.

Recently, I have used Social Security's hypothetical workers to also analyze how tax preferences for private retirement savings through employer-sponsored plans interact with Social Security. I focused on the 1949 birth cohort. In developing my estimates of Social Security contributions and benefits, I focused purely on contributions for retirement benefits and did not include the value of disability benefits in any computations. In calculating the value of the tax preferences to employer-sponsored retirement plan accumulations, I assumed the alternative investment option would be through a government bond investment account where the contributions would be made with earnings that were taxed in the year earned and the interest accruals each year were subject to income taxes. There are clearly investment options available to workers where the tax effects on savings would not be as significant as this example but I wanted to shed the best possible light on the preferences accorded workers under the tax code.[5]

The examples developed suggest that many of the people who do not have particularly good economic prospects under Social Security can expect to benefit fairly well with the tax treatment of their retirement savings plans. The combined effects of the two systems are reflected in Table 3.

In way of explanation of the results, consider the "medium earner." The single-earner male will be a net loser to the tune of $80,751 under Social Security but potentially a net gainer to the tune of $63,642 under the private pension system. In combination, he will still come out as a net loser of $17,109. The values of the tax preferences in tax-favored retirement plans for two-earner couples shown here are simply the doubling of the single earner values based on the assumption that both workers in the two-earner couples fall into the same earnings category.

The intent of this exercise was to develop the series of combined values shown in the bottom four rows of the table. They represent the net effects of Social Security and the employer-based retirement systems operating in tandem. The results suggest that the majority of single male workers covered by both Social Security and an employer-sponsored retirement plan are net investors in the combined retirement system despite the tax benefits attributed to the private savings component. Single female workers fare a bit better in this context, as only the high and maximum earners are net investors in the system.

Table 3: Combined Value Social Security Net Benefit Gains versus Contributions and the Lifetime Net Tax Benefits from a Tax-Qualified Retirement Savings for Hypothetical Workers Born in 1949 and Retiring at age 65 by Earnings Level

Value at retirement date	Low earner	Medium earner	High earner	Maximum earner
Net lifetime Social Security gains				
Single male	$6,950	-$80,751	-$201,020	-$495,462
Single female	26,253	-49,033	-158,615	-448,664
One earner couple	171,299	200,429	164,036	-108,378
Two earner couple	52,506	-98,066	-317,230	-897,328
Value of the tax preference in tax-favored retirement plan -- one earner	17,185	63,642	152,014	433,604
For two earners	34,371	127,284	304,028	867,209
Combined value of Social Security gains plus pension surplus from tax preference				
Single males	$24,135	-$17,109	-$49,006	-$61,858
Single females	43,438	14,609	-6,601	-15,060
One earner couple	188,484	264,071	316,050	325,226
Two earner couple	86,877	29,218	-13,203	-30,119

Source: Sylvester J. Schieber, *The Predictable Surprise, the Demise of the 20th Century Retirement System and the Way Forward* (New York: Oxford University Press, forthcoming in 2012), Chapter 24.

According to the estimates from the Social Security actuaries, a high earner retiring in 2008 had a lifetime average indexed annual earnings level of around $65,000, a level that many might consider to be solidly in the middle class. The two-earner couples' results are simply double the single female results. The ratio of their lifetime Social Security benefits to lifetime contributions is almost exactly the same as that of the single female outcome and their lifetime tax benefits from the employer-sponsored component of the system are identical for both members of each married couple by assumption in developing the earnings and contribution histories.

The one group in all of this that appears to have won the retirement lottery is the couple with only one-earner. The result in this case is being driven by the structure of Social Security and has virtually nothing to do with the employer-sponsored retirement system. The tax benefits for the single earners participating in employer-sponsored retirement plans are exactly the same at every earnings level as those of the one-earner couples so it cannot be these benefit that are resulting in the tremendous advantage the latter have in the combined systems. It is solely driven by the larger net benefits paid to one-earner couples by Social Security.

The results of this analysis suggest that some workers participating in Social Security receive extremely preferential nonworking spousal benefits under Social Security. This benefit may have made sense in the 1930s or 1940s when most women were homemakers raising children but it makes no sense in an economy where the vast majority of women enter the labor market at an early age and remain there for relatively full careers. In 1944, 11.6 of the retirees claiming a benefit in their own right were women—a clear sign of the predominance of men in the workforce in the era. Labor force patterns changed in the years after World War II and by 1960, 35 percent of the retired workers drawing Social Security benefits were women.[6] By 2008, only 28 percent of the women receiving a Social Security benefit were drawing benefits purely on the basis of the earnings record and entitlement of their husbands.[7]

A growing body of research in recent years has focused on the distributional outcomes under Social Security. In part, these studies have been motivated by concerns over whether stated policies are working as intended. As it has become more apparent that we need to revisit Social Security financing policy, it makes sense to assess whether the program is accomplishing what policymakers had intended in the first place.

Alan Gustman and Tom Steinmeir have analyzed the Health and Retirement Study population in regard to their Social Security benefits relative to their contributions to the system. They conclude:

> When families are arrayed according to the total lifetime earnings, and spouse and survivor benefits are taken into account, the extent of redistribution from families with high lifetime earnings to families with low lifetime earnings is roughly halved. Much of the remaining redistribution is from families where both spouses spend much of their potential work lives in the labor market, to families where a spouse, often with high earnings potential, chooses to spend a significant number of years outside of the labor force. When families are arrayed by their earnings potential, that is, earnings during years when both spouses are engaged in substantial work, there is very little redistribution from families with high to low earnings capacity.[8]

Jeffrey Brown, Julia Coronado and Don Fullerton use a completely different data set, the Panel Study of Income Dynamics, to analyze the same issue. They used data for the years 1968 through 1993, and included all households that had been in the sample for at least 10 of the 26 years and were under age 55 in 1968. They studied the results from more than 6,000 respondents with some over-representation of lower-income individuals. They concluded that

> … when evaluated using potential labor earnings at the household level (rather than actual individual earnings), the Social Security retirement program exhibits virtually no overall impact on inequality... We find that the lack of impact on overall inequality is largely driven by the lack of impact across the middle and upper part of the income distribution, whereas most of those in the bottom income quintile may, in fact, still get net benefits from the program. Third, even when redistribution does occur, we find that it

is not efficiently targeted, with many high income households receiving net transfers, while many low income households pay net taxes.[9]

On at least a dozen separate occasions since the passage of the Social Security Act in 1935, the Congress has explicitly specified a benefit formula meant to deliver progressively higher benefits relative to earnings at lower earnings levels. In the recent recommendations for Social Security reform by both the National Commission on Fiscal Responsibility and Reform and the Debt Reduction Task Force this feature of Social Security would be accentuated to a greater degree than it ever has been historically. Congressman Paul Ryan's Social Security reform proposal in his *Roadmap for America* also calls for enhancing benefits for lower earners and scaling them back at higher earnings levels. Yet we cling to an antiquated benefit that totally defeats what we have told the American public is our national policy.

A Modernizing Addition Worthy of Consideration

Another change to the benefit structure that should be considered in modernizing Social Security is the introduction of a true joint and survivor benefit for married couples. The operation of the spousal benefit partially covers this void but by perpetuating its inequitable existence and mitigating the need for a joint and survivor benefit existing policy propagates another inequity. The longest living spouse in a two-earner couple receives little or no benefit in consideration of the deceased spouse's income and participation in Social Security. This makes the spousal benefit in single-earner couples and even more glaring inequity in the 1939 benefit design to which we are still hitched.

The Retirement Equity Act of 1983 required that private employer-sponsored pensions offer a joint and survivor benefit and the only way that it can be waived is by both spouses signing an affidavit that they do not want such a benefit. These benefits can be self-financing at a moderate cost to the initial annuity and modest effect on the total income adequacy of retirees. Implementing a 100 percent joint and survivor benefit for couples where one spouse has limited or no covered earnings will provide as much protection as the current survivor system and a minimum 50 percent J&S benefit where both have substantial benefits of their own would likely have a positive marginal effect on survivors' income prospects. It is time to bring the same sorts of protections mandated on private pension plans to Social Security. There is no reason we should not modernize the program where it makes sense to do so.

Social Security Policy in a Larger Context

Proposals from both the National Commission on Fiscal Responsibility and Reform and the Debt Reduction Task Force would raise the level of earnings subject to the payroll tax and reduce benefits for higher earners. They also call for dramatically reducing the level of earnings on which tax favored contributions can be made through employer-sponsored retirement plans. The proposal is that participants be limited to tax deductible contributions of the lesser of 20 percent of earnings each year or an annual limit of $20,000. This means that workers earning above $100,000 per year are going to be limited once again in terms of being able to accumulate sufficient resources to provide income replacement in retirement that allows them to maintain their preretirement standard of living. The people that will be most affected by this policy, if it is implemented, are those with earnings in the $100,000 to $250,000 earnings ranges. This is exactly the same group on whom they propose raising payroll taxes and cutting back Social Security benefits. Adoption of these proposals will make the Social Security results in Tables 2 and 3 much worse for higher earners. This may be an inevitable outcome in any event but I believe it would be a more equitable one if the workers affected are given the opportunity to "earn" back a portion of the tremendous investment they will be making in Social Security by their own retirement savings in a tax favored form.

The reduced tax preferences proposed for retirement savings plans might not mean that many employers will shut down existing programs but it likely portends that some, maybe many, will scale back benefits—namely matching contributions for workers up and down the earnings spectrum as plans are realigned for the meager benefits that can be funded for mid-level managers and technical staff. Tracking the changes that have occurred in employer-based segments of the retirement system over the past 30 years should serve as sufficient warning that regulatory changes do have implications on the evolving structure and levels of benefits that employers offer. If short-term federal revenue considerations lead us to reduce tax expenditures related to retirement savings and it results in long-term demands for increased taxing and expenditures under Social Security, effectively we will have played a game of double jeopardy with future generations.

Endnotes

[1] Robert M. Ball, Oral History found at: http://www.socialsecurity.gov/history/orals/ball6.html.

[2] Robert J. Myers, "History of Replacement Rates for Various Amendments to the Social Security Act," Memorandum no. 2 (Washington, D.C.: National Commission on Social Security Reform, 1982), p. 3 and 1994-1996 Advisory Council on Social Security background materials.

[3] Michael Clingman, Kyle Burkhalter, Alice Wade, and Chris Chaplain, "Money's Worth Ratios under the OASDI Program for Hypothetical Workers," *Actuarial Note* (Social Security Administration, Office of the Actuary, July 2010), no. 7, found at: http://www.socialsecurity.gov/OACT/NOTES/ran7/index.html.

[4] John Geanakoplos, Olivia S. Mitchell, and Stephen Zeldes. "Social Security Money's Worth". *In Prospects for Social Security Reform*, eds. O.S. Mitchell, R. Myers, & H. Young. Philadelphia, PA: Univ. of Pennsylvania Press, 1999: 79-151.

[5] The details of my calculations will be presented in Sylvester J. Schieber. *The Predictable Surprise, the Demise of the 20th Century Retirement System and the Way Forward* (New York: Oxford University Press, forthcoming in 2012). Chapter 24.

[6] Social Security Administration, *Social Security Bulletin, Annual Statistical Supplement, 2008*, Table 5.b5.

[7] Social Security Administration, *Social Security Bulletin, Annual Statistical Supplement, 2008*, Table 5.A14.

[8] Alan L. Gustman and Thomas L. Steinmeier, 'How Effective Is Redistribution under the Social Security Benefit Formula,' (Cambridge, MA: National Bureau of Economic Research, 2000), Working Paper No. 7597.

[9] Jeffrey R. Brown, Julia Lynn Coronado and Don Fullerton, "Is Social Security Part of the Social Safety Net?" (Cambridge, MA: National Bureau of Economic Research, 2009), Working Paper No. 15070, p. 4.

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Chairman JOHNSON. Thank you, sir. I appreciate it.

Mr. Terry, you may proceed.

STATEMENT OF THOMAS S. TERRY, PRESIDENT, T. TERRY CONSULTING, ON BEHALF OF THE AMERICAN ACADEMY OF ACTUARIES

Mr. TERRY. Thank you, Mr. Chairman and Members of the Subcommittee. I am glad to be here this morning. I am here representing the American Academy of Actuaries. We are an organization of roughly 17,000 members whose mission is to serve the public on behalf of the U.S. actuarial profession.

I want to talk—in my five minutes I would like to talk about two things. I would like to talk about actuaries and the role of actuaries in assessing the solvency and sustainability of financial systems, and I would like to talk about a position that the American Academy of Actuaries has advocated, and that is that the Social Security retirement age be increased.

First, about actuaries. Actuaries go about the business of evaluating complex financial systems. And we do that by constructing models. And these models are designed to gauge the long-term solvency and the long-term sustainability of these financial systems. We go about that by looking at the system from the standpoint of the principles that seem to be functioning in that system, and the assumptions that support that.

Now, the reason we do that is because we then turn around and we project those principles into the future, based on a certain set of assumptions.

Now, as you know, there is talk about actuarial imbalances in the Social Security system. Well, those calculations are not here-and-now assessments, because, as we know, there is a $2.6 trillion trust fund. This is really a long-term imbalance that we talk about. It is actuarial principles and assumptions that give transparency into that sort of imbalance. And so, therefore, what we do as actuaries is we examine and explore those principles, and we test those assumptions.

Now, one of the key principles, for example, that the Social Security system operates on is that the current cohort of workers will support the current cohort of retirees. That is one of the foundational principles upon which the system has been built.

Now, one of the assumptions that has gone into that system is that—right from the very start—is that longevity was a relative fixed notion. Back in—as the chairman indicated, back in 1937, longevity was what it was. And for people at birth at that age, longevity was—or life expectancy was 64. For those that reached age 65, their life expectancy at that point was 12 years.

Fast forward to today. Life expectancy for a 65-year-old is roughly 18 years. That is a 50 percent increase over that which was in place in 1937, which brings us now to my second point, which is the American Academy of Actuaries and our position around retirement age.

You know, we at the academy have examined and explored all sorts of suggestions, options, alternatives for closing that imbalance, closing that long-term 75-year imbalance. One of the topics that has risen to the top of the list that we look at is increasing retirement age. And the reason is because we believe it was an assumption that was a fixed assumption back in 1937 that deserves re-evaluation today.

Every actuarial forecast or projection that has been done since then has, in fact, updated and anticipated improved longevity, including the forecasts that have been done in the most—you know, in the current time frame that takes into account this 50 percent improvement in longevity.

To restore balance to the system and to maintain that balance between the working years and the retirement years, the academy believes that it is paramount that, at the top of any list of reform items, increasing the retirement age has to appear on that list.

We are mindful of the fact that any increase or any change to the system has to be done with respect to what objectives we are trying to achieve, the impact on both near-term as well as long-term retirees. We are mindful of the fact that there are always going to be consequences to any change. And to the extent that there are consequences, those consequences may need to be mitigated. We are well aware of that, and we stand ready to sort of help evaluate any sorts of proposals that may come forward that appear in any sort of a reform package.

So, those are my remarks, Mr. Chairman.

[The statement of Mr. Terry follows:]

AMERICAN ACADEMY *of* ACTUARIES

Statement of

Thomas S. Terry, FSA, FCA, MAAA, EA
Chairperson, Public Interest Committee
American Academy of Actuaries

To the
Committee on Ways and Means
Subcommittee on Social Security
U.S. House of Representatives

Hearing on

Social Security's current benefit expenditures, proposed changes to future benefits and the impact those changes would have on the program, future beneficiaries, workers, and the economy.

July 8, 2011

The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Chairman Johnson, Ranking Member Becerra—and distinguished members of the subcommittee. Thank you for the opportunity to appear before you today to address Social Security's current and future benefit expenditures.

I appear before you today on behalf of the American Academy of Actuaries, where I currently serve as the chairperson of the Public Interest Committee. The Academy is the non-partisan professional association representing all actuaries in the United States. Our mission is to serve the public by providing independent and objective actuarial information, analysis, and education to help in the formation of sound public policy.

The time has come to increase the Social Security retirement age.

It is in this spirit that the actuarial profession, through the American Academy of Actuaries, decided in 2008 on a course of action that had never been taken in its 45-year history—for the first time the Academy would advocate for a position. Actuaries, as you might know, do not have out-sized reputations for being risk-takers. Risk-evaluators, yes. Risk-takers, no. But, because of the long-range solvency challenges facing Social Security, and recognizing current and future demographic trends, actuaries believed it was necessary to strongly recommend for the expeditious consideration of an adjustment to the Social Security program to help put it on a path toward sustainable solvency. I'm referring specifically to increasing the Social Security retirement age, a subject that I will focus on in my remarks today.

For two decades, Social Security's trustees have been telling us—annually—that the system is not in actuarial balance. What does that mean? It means that at some point in the foreseeable future—2036 according to the most recent Trustees Report—absent corrective legislation, the program will be unable to pay benefits in full in a timely fashion. Adjusting the system today means that changes can be phased in slowly over many years. But ignoring the projections and deferring needed adjustments to the future will result only in more difficulty down the road. The adjustments necessary at a long-deferred date to bring the program to actuarial balance will require more immediate and more drastic measures, measures that will have a more severe impact on beneficiaries and the taxpaying public.

Over the years, actuaries have evaluated numerous proposals to prevent us from reaching a point where drastic action is necessary. Among the many options that would alleviate the imbalance, one became immediately obvious: increasing Social Security's retirement age. As life expectancy increases, and the number of working years remains relatively constant, the proportion of workers' lives spent in retirement continues to grow. This shifting balance between working years and retirement years has contributed to the system's long-term actuarial imbalance. As actuaries, we see this as a demographic problem that demands a demographic solution.

While we understand that an increase in retirement age could reduce overall lifetime benefits, we need to keep in mind the highly relevant relationship among retirement age, benefit growth, and retirement security. When the Social Security retirement age remains fixed over time, increasing life expectancy means a de facto *automatic expansion* of benefits in terms of increasing *lifetime* benefits (and, of course, system costs). In other words, while people are retiring at ages that, even after the 1983 reform adjustments, are relatively close to the program's original retirement age, their life expectancy, or longevity, has increased and continues to increase significantly. This means that retirees will be collecting Social Security benefits over a greater period of time than previous generations. Increasing the retirement age can contribute significantly to stemming this demographic trend and help put the program back on track toward actuarial balance.

In 1940, when Social Security began paying monthly retired-worker benefits, the normal retirement age was set at age 65. At that time, workers who survived to age 65 had a remaining life expectancy of 12.7 years for males and 14.7 years for females.

In 2010 life expectancy at age 65 was 18.6 years for males and 20.7 years[1] for females. In other words, since Social Security began paying monthly benefits, life expectancy at age 65 has increased by about six years for both males and females. In addition, Social Security's Board of Trustees anticipates additional, significant improvements in life expectancy during the 75-year projection period. If the projections are borne out by actual experience, life expectancy at age 65 will have increased by about 10 years from 1940 to 2085. For more information, please view the table located in the appendix.

So, where are we today? The 1983 increases in the normal retirement age gave partial recognition to the improvements in life expectancy since 1940. These scheduled increases were part of a package of changes adopted to fend off near-term program insolvency. Under the 1983 adjustments, the normal retirement age has gradually increased to age 66 for workers born in 1943 (who will reach age 66 in 2009). The normal retirement age then remains at age 66 for 12 years, before gradually increasing to age 67 for workers born in or after 1960 (who will reach age 67 in 2027 and later). These increases are summarized in the table below.

Year of Birth	**Current Law Social Security Normal Retirement Age**
1943—1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 & older	67

[1] 2011 *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*
http://www.ssa.gov/oact/TR/2011/V_A_demo.html#221776

From today's perspective, however, these 1983 scheduled increases in normal retirement age accounted for only two of the additional six years of life expectancy that we're experiencing today. Additional increases are needed to bring the retirement age in line with the expectations of the program when it was founded.

This is not to say that the 1983 amendments were fundamentally flawed in any way. To the contrary, those amendments, including the bump in normal retirement age from 65 to 67, represented a package of changes that accomplished the objective at that time. But that reform package in no way was designed to maintain a stable proportion of working years to retirement years in the long run, especially in the context of continuing improvements in life expectancy.

Before proceeding with a discussion of where to set future retirement age levels, let me make clear that although the Academy now advocates for inclusion of retirement age in efforts to restore Social Security's long-term actuarial balance, we do not advocate for any one proposal or approach. Nor do we intend for an increase in the retirement age to be seen as a solution that will address the entire imbalance in the system. It is but one component, though a necessary one, of restoring Social Security's long-term financial health.

Some approaches for increasing the Social Security normal retirement age include the following:

<u>Increases to the normal retirement age</u>—There are various ways to increase the retirement age. The Social Security Administration's Chief Actuary Steve Goss and his staff have developed eight examples, the most rapid—beginning the increase in the normal retirement age from age 66 to age 67 immediately, followed by increases by one month (in retirement age) every two years (in birth-date years) until the normal retirement age reaches age 70—reduces the long-range actuarial deficit by about a third. A rate of increase more rapid than one month every two years would be necessary to further reduce the long-range deficit.

<u>Pay benefits for the same number of years</u>—The normal retirement age could be indexed so that life expectancy at the normal retirement age remains constant over time. For example, life expectancy at age 65 (weighted between males and females and rounded to the nearest whole year) is now nearly 20 years. Based on expected increases in longevity from the Trustees Report, the normal retirement age would have to increase by about one month every year or two for life expectancy at normal retirement age to remain 20 years. This method would decrease system costs over time, because the payout period for benefits would remain the same while the period over which payroll taxes would be paid would increase. The savings from this change alone would not be sufficient to restore actuarial balance. But indexing the normal retirement age by one month every two years in combination with other changes to the system could restore actuarial balance. Another method of indexing that might make more sense than using a formula (i.e., one month every two years) would be to index retirement age based on demographic trends as they

develop since there is some disagreement among experts on the long-term rate of mortality improvement.

Keep the ratio of retirement years to working years the same—The normal retirement age also could be indexed so that the period from workforce entry age to the normal retirement age increases at the same rate as life expectancy at normal retirement age. This method, which was recommended in 1983 by a majority of the members of the National Commission on Social Security Reform, would increase the normal retirement age a little more slowly than maintaining a constant life expectancy at normal retirement age and, therefore, would reduce program costs to a lesser degree. But by using this method, policymakers may intend that some portion of the increase in life expectancy at normal retirement age may reflect years of unhealthy life during which workers could not continue working and that extra years of life expectancy should be split in some manner between work and retirement.

Adjust the normal retirement age to maintain actuarial balance—If Social Security were restored to actuarial balance by an ad hoc increase to the normal retirement age or by some other change or combination of changes, actuarial balance could be maintained by automatically adjusting the normal retirement age as necessary to achieve this goal. An adjustment of this nature also could be combined with automatic adjustments to the payroll-tax rate or benefit amounts to maintain actuarial balance. Automatic adjustments of this nature have been adopted by other developed countries for their national retirement systems. These issues are discussed in greater depth in the Academy's issue brief, *Automatic Adjustments to Maintain Social Security's Long-Range Actuarial Balance*.

Indexing the PIA formula for longevity—The Bipartisan Policy Center's Debt Reduction Task Force introduced a way to adjust benefits for longevity by decreasing the 90 percent, 32 percent and 15 percent factors used in calculating the primary insurance amount (PIA) as people live longer. The factors would be multiplied by the ratio of life expectancy of someone reaching age 67 in 2018 to the life expectancy of someone reaching age 67 in the fourth year before benefit eligibility. The task force's proposal also would apply to disabled workers at the time of conversion to disabled worker status, with the ratio only applying to the proportion of the benefit earned while not disabled.

Finally, it is important to remember there are ways to lessen the impact on working Americans and certain segments of the workforce who could be inequitably affected by any increase in the Social Security retirement age:

- Gradually phase in any change over an extended period of years, even decades, to accommodate the changes in retirement behavior that would be needed to make the policy successful—a longer phase-in period would allow for more time for society to adapt to the new work-life reality.

- Disparate distribution of longevity gains across the population—with wealthier socioeconomic groups recently showing more longevity improvements than poorer socioeconomic groups—could be addressed by modifying the progressivity of the benefit formula in conjunction with retirement age changes.

- Difficulty in continuing to work in occupations that involve physical labor could be addressed by additional occupational bridge pensions, perhaps combined with revisions to existing disability programs.

- Greater difficulties that older workers sometimes face in finding jobs could be addressed by policies to facilitate employment at older ages (such as reductions to the payroll tax at older ages)

There will have to be considerable deliberation over the public policy considerations that go into a solvency reform package. In the end, proposals for solving Social Security's financial problems must be judged by how well they use the available revenues to fulfill the system's purpose—to provide a basic level of retirement income for all American workers.

CPI – Part of the problem? Or Part of the solution?
And now, I would like to spend the remainder of my time addressing another area that has been called into question because of concerns about overmeasuring or undermeasuring certain parts of the population in the economy. While controversy around issues pertaining to the consumer price index (CPI) methodology is not new, it of course becomes especially acute during economic downturns because of its relationship with the annual cost of living allowance (COLA) for Social Security. While the appropriate methodology resides in the field of economics, as an actuary I can provide some high-level observations as to how modifications to the automatic annual COLAs cold affect the program.

There are currently several variations on what is commonly understood as the CPI that is applied to the COLA calculation, which has been dubbed CPI-W and reflects price increases for urban wage earners and clerical workers, about 32 percent of the population.

The alternatives include: CPI-E, consumer price index for elderly consumers, designed to reflect the different consumption patterns of consumers age 62 and older; CPI-U, which reflects the consumption pattern of all urban consumers, about 87 percent of the population; C-CPI-U, which is a second version of the CPI-U based on a "chain-weighted" formula that reflects changes in the distribution of consumer purchases among 211 broad categories (strata) of goods and services on a month by month basis; and what is called the Superlative CPI, which takes into account the tendency for consumers to substitute products whose prices have increased more slowly for those whose prices have increased more rapidly even among unrelated categories of goods and services.

To briefly sum up some key actuarial implications with these variations, my focus, of course is on the overall solvency impact.

Adjusting the CPI downward would improve the financial condition of the OASDI program.

For instance the current CPI-W has an historical average annual rate of 4.4 percent for the period 1969—2009. The Superlative CPI is projected to lower the annual increase in CPI by an estimated 0.3 percent. Generally, the rate of increase in the CPI-U has been very close to the increase in the CPI-W and for the future we do not expect any significant difference in the average annual increase based on difference in consumption of these two groups. Tracking of the chain-weighted version of CPI-U, C-CPI-U, has illustrated an increase of about 0.3 percentage point less than the CPI-U per year on average over the period it has been computed, and we expect this difference will continue into the future. Based on the data available for the CPI-E, it is estimated that over the long-term it will tend to increase at an average annual rate that is about 0.2 percentage point higher than for the broader indexes.

If Social Security benefits increased by 0.5 percent per year less than under the current program, the cumulative reduction would be about 5 percent after 10 years, and almost 10 percent after 20 years. This change would eliminate about 40 percent of Social Security's 75-year deficit according to a 2009 study done by the Social Security Office of the Chief Actuary[2].

Conclusion
In closing, I again thank you for the opportunity to present some actuarial ideas to you today on these critical issues facing Social Security. There is no magic solution to the impending solvency challenges facing Social Security. And, certainly, no solution to adequately address the looming issue is going to be easy, simple, and without affecting beneficiaries, workers, or both. But by beginning this process sooner rather than later—when it is too late to employ measures aimed at mitigating those effects—we can ensure that the system lives on to provide the retirement safety net that it has provided for generations and for the generations to come. Thank you, and I would be happy to answer any questions you might have at the appropriate time.

# # #

[2] http://www.actuary.org/pdf/socialsecurity/Social_Security_Reform_Issue_Brief_6-15-10.pdf

Appendix

Year (age 65)	Male	Female
1940	12.7	14.7
1950	13.1	16.2
1960	13.2	17.4
1970	13.8	18.5
1980	14.7	18.8
1990	16.0	19.3
2000	17.5	20.0
2010	18.6	20.7
2035	20.3	22.3
2060	21.7	23.6
2085	22.9	24.8

Source: 2011 *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*
http://www.ssa.gov/oact/TR/2011/V_A_demo.html#221776

Chairman JOHNSON. Thank you very much.
Dr. Steuerle, you may proceed.

STATEMENT OF C. EUGENE STEUERLE, PH.D., SENIOR FELLOW, URBAN INSTITUTE

Mr. STEUERLE. Thank you, Mr. Chairman, Members of the Subcommittee. It is an honor to be before you again today.

As has been commented already by several people, including you, Mr. Chairman, since Social Security was first enacted, vast changes have occurred in the economy and life expectancy, and the health care and the labor force participation of women. We simply cannot design a system for 2080 by what we think were the needs of a society in 1930.

That doesn't mean Social Security hasn't been a great success. It has. But at the margin it is not serving us as well as it could. So, consider the following.

If you count lifetime benefits in Social Security, taking into account the retirement age issues that Mr. Terry just talked about, Social Security now provides about $555,000 worth of lifetime benefits to the average couple retiring today. For someone of Mr. Becerra's generation, the average benefits rise to over $700,000. If for your generation, if we count in Medicare, it's over a million, it is about $1.2 million or $1.3 million.

So, what we are really talking about here is the growth in the benefits that we are trying to try to figure out how to constrain so we can stay within a reasonable system, not cutting back on existing levels.

In addition, the current system has morphed into a middle-aged retirement system. Basically, younger and younger people are—essentially, relative to their life expectancy—are getting benefits. It has recently made only modest progress in dealing with poverty.

It discourages work among older individuals, and we need them to be in the labor force. It encourages the near-elderly to spend down their retirement income too soon, so it is a threat to the very old, and it denies equal justice in all sorts of ways. It discriminates against the single working heads of household; against the long-term worker; and many others.

None of these features—I just want to be clear—derives from any conservative or liberal principle. They are just badly designed features that don't meet the needs of today, and are not well targeted, if you are worried about—as I am—about the progressivity of the system.

So, in my testimony I talk about four different types of reforms that I think are really important and worth considering.

One is simply to try to figure out ways to restrict the growth in benefits and the growth in number of years of benefits, which is largely the retirement age issue. It is not necessarily and issue of cutting back on the number of years, but cutting back or limiting growth while the system is out of balance. I think we need to really think about ways of increasing labor supply. We really need workers in the economy who bring revenues to the Social Security system, who bring revenues to the income tax.

I talk about increasing the equity and efficiency of the system, particularly this discrimination, largely against single heads of households, who are often working women, abandoned mothers, who basically don't have access to about a quarter of the system for which they pay.

And I would also like to encourage you to think about latching on some private pension reform—to extend pension coverage to lower-income people—as a part of a broader fix of the programs for the elderly.

Very briefly, I first suggest restricting growth when the system is out of balance. If Congress would simply put on a rule that says, "While Social Security and Medicare are out of balance, we are going to cap the total amount of benefits at $1 million per couple," the systems would be in long-term balance. It is the growth in the benefits well beyond this million-dollar package of benefits per couple that is causing the imbalances.

Another issue I would address here, as I said, is to gradually adjust the retirement age to take into account that people are living longer and longer, because it is having an effect on who is getting the benefits. More and more benefits, as I show, are going to people further and further from death. Benefits are not well concentrated to periods when people's needs are the greatest.

I would also index the benefits more slowly for higher-income people, although I would favor a strong minimum benefit that is wage-indexed for low and moderate-income people. So we could really provide an even sounder base of protection for the bottom third, or the bottom half of the income distribution.

I mentioned in the testimony that I would try to encourage greater labor force participation, and that's where increasing the retirement age, I think, is really important. And that includes the early retirement age. Increasing the early retirement age has very little effect on Social Security balances, but does a lot, by the way, for income tax revenues. It helps us deal with this demographic issue of going to a world where we are encouraging about one-third of adults to be on Social Security.

I also suggest all sorts of ways of improving the equity and efficiency of this system. These include, as I mentioned, designing strong minimum benefits to really help lower-income people. I would move toward actuarial neutrality in designing survival and spousal benefits, because that is a major cause of the problem of this discrimination against single heads of households.

And finally, as I mentioned, I would try to add on some private pension reform on to Social Security, so that we get some saving for this broad mass of middle class people who don't have much saving in retirement.

Finally, Mr. Chairman, Mr. Becerra, Members of the Committee, I would like to note that the definition of a pessimist is someone, when he smells the scent of flowers, looks around for a casket. I actually think that what you are going through politically these days on Social Security, on taxes, on the debt, is very difficult. You are having to identify who is going to pay for government, either through lower benefits or higher taxes because the promises we made in the past just cannot be met.

But if we take this straightjacket off ourselves, I think we are actually freeing up ourselves—and you as a congress—to put resources towards those needs that we consider to be the most important in society. Thank you.

[The statement of Mr. Steuerle follows:]

RESTORING SOLVENCY AND IMPROVING EQUITY IN SOCIAL SECURITY: BENEFIT OPTIONS

Statement before the
Subcommittee on Social Security
Committee on Ways and Means
United States House of Representatives

July 8, 2011

C. Eugene Steuerle

C. Eugene Steuerle is an Institute Fellow and Richard B. Fisher chair at the Urban Institute. Any opinions expressed herein are solely the author's and should not be attributed to any of the organizations with which he is associated.

RESTORING SOLVENCY AND IMPROVING EQUITY IN SOCIAL SECURITY: BENEFIT OPTIONS

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to testify on alternative ways to restore solvency and undertake benefit reforms in Social Security. My understanding is that you have already held testimony on financing challenges and revenue options and today want to focus on benefit options. As for revenue options beyond the scope of this hearing, I refer you to the testimony I made before the National Commission on Fiscal Responsibility and Reform, although I must note here that too little attention is given to the ways that benefit options within Social Security can be designed to have a very positive impact on revenues, including income tax revenues.

In my testimony I will concentrate on four types of benefit reforms. These include restricting automatic growth in benefits where needs are least, adjusting benefits so they both encourage employment and are concentrated more in older ages, removing many sources of inequity and inefficiency in the system that penalize beneficiaries ranging from low-income abandoned mothers to faithful spouses, and reforming private pensions so they better protect the majority of workers who today end up with little in the way of private retirement benefits. Basic principles of public finance imply that each of these four arenas should be reformed even if there were no budget imbalances in Social Security or in the wider federal budget so we can better direct our societal resources.

Before proceeding, I must repeat a dream I have laid out before this Committee in the past. In this dream, researchers from the National Institutes of Health come in to the Committee room and proclaim that they have found an expensive cure for cancer. The audience is thrilled at the possibilities, but behind the podium the members are sweating and commiserating among themselves. At last, I figure out why they are concerned: better health means longer lives and more health costs, so Social Security and Medicare will be even more out of balance.

The point of recounting this dream is simple. To develop a 21st-century government and promote a strong future economy, we must deal with many problems: inadequate educational attainment, crime, unemployment, youth being raised without fathers, too much borrowing from abroad, and so forth. Longer lives and better health are not among them. These blessings and societal gains have been converted into budgetary problems by the way we have designed our social insurance systems to spend ever-larger portions of our national income on needs that are marginally less important.

Social Security and the Modern Economy

Since Social Security was first enacted, vast changes have occurred in the economy, life expectancy, health care, the physical demands of jobs, the labor force participation of women, the percentage of women left on their own to both raise children and work, the age at which one can be considered old, the consumption levels of the elderly relative to the nonelderly, and poverty levels of children relative to the old—to mention only some factors. Yet we often debate Social Security as if the type of system we want in 2080 should be determined by perceptions and measures of needs of a society in 1930.

As a consequence, our programs of elderly support contain a benefit structure that needs substantial reform, even if there were no solvency issue. The current Social Security system

- provides $555,000 worth of benefits ($905,000 if one adds in Medicare) to the newly retiring average-wage couple in 2010, rising toward $700,000 ($1.2 million) for couples in their mid-40s today, even while programs for their children are scheduled to be cut;
- has morphed into a middle-age retirement system, with typical couples soon receiving close to three decades of benefits, while individuals retire on average at least a decade longer than they did when the system was first established;
- despite doing a good job in reducing poverty in its early years, has made only modest progress recently despite spending hundreds of billions of dollars more;
- keeps expanding years of support and benefits most for higher-income workers;
- discourages work among older Americans at the very time they have become among the most underused source of human capital in the economy;
- threatens the well-being of the truly elderly by encouraging them to spend their retirement income too soon; and
- denies equal justice in a whole variety of ways by discriminating against
    - the working single head of household,
    - couples where both spouse works, especially if their earnings are approximately equal;
    - the long-term worker,
    - the worker who stays married;
    - the divorced person married less than ten years,
    - the divorced person with a living former spouse,
    - married couples of a similar age;
    - the divorcee, widow, or widower who remarries someone with lower earnings than the former spouse, and
    - the parent who doesn't delay child-bearing until his 40s or beyond.

None of these features, I assure you, derives from adherence to any principle—liberal or conservative—but simply from design flaws and failures to adjust with the evolution of the modern economy and family. In fact, many of these features would be illegal if put into private benefit plans.

What is worse is that these deficiencies would continue for decades if not centuries under many proposed Social Security reforms. If we can't deal with them now when Social Security must be reformed, then when can we deal with them?

In the remainder of my testimony, I will concentrate on four types of benefit reforms built around traditional principles of progressivity, equal justice, efficiency, and individual equity. These reforms would

(1) restrict growth in benefits and growth in years of support, with primary effects on higher-income households, when the system is out of balance;

(2) increase labor supply and enhance revenues along with benefit reform;

(3) improve the equity and efficiency of the current system, regardless of size; and

(4) enhance Social Security with more adequate private pension benefits for tens of millions.

Lifetime Benefits

In examining these reforms, it is best to start with the package of benefits received by the elderly within Social Security or, more broadly, within Social Security and Medicare. Such an approach allows us to consider trade-offs not made obvious when decisions about annual benefits, retirement age, indexing of benefits, premium cost for Medicare, and other features are considered separately.

With the exception of the World War II period, programs for the elderly have been absorbing ever-higher shares of national income and of the budget for almost seven decades. Define "lifetime benefits" as the value, at age 65, of Social Security and Medicare benefits as if the necessary monies were sitting in a 401(k) account that would earn interest but be drawn upon over retirement years. In today's dollars, lifetime benefits for an average-income couple have risen from about $297,000 in 1960 to $906,000 today ($555,000 in Social Security and $351,000 in Medicare). See figure 1. Add in the backup insurance most of us have if we go into a nursing home for any extended period, and the total approaches $1 million per couple. Over the next two decades, the benefits grow by about $225,000, or an average of more than $10,000 a year.[1]

We cannot provide a very large portion of the population these million-dollar packages of benefits and simultaneously encourage them to drop out of the workforce for the last third of their adult lives without affecting dramatically the services that can be provided through the budget, both to them when they are truly old and to children and working families.

Limit Growth for the Less Needy Elderly When the System Is Out of Balance

Under current policy, federal government spending grows automatically, by default faster than national income and tax revenues, as the population ages and health costs soar. These defaults are threatening the economy with large, unsustainable deficits. More important, they deny to each generation the opportunity to orient government toward meeting current needs and its own preferences for services. Only by changing the budget's auto-pilot programming can we gain the flexibility needed to continually improve government policies and services.

Beginning in 2004, Rudolph G. Penner (also an Institute fellow at the Urban Institute and a former director of the Congressional Budget Office) and I started publishing suggestions about the use of triggers to deal with various budget issues. Within Social Security, or within Social Security and Medicare together, such triggers could be used to put these programs back into balance, say, whenever the trustees report for three consecutive years that the program is likely to be in long-run deficit. With the trigger pulled, here are some options that could be considered:

[1] C. Eugene Steuerle and Stephanie Rennane, "Social Security and Medicare Taxes and Benefits Over a Lifetime" (Washington, DC: The Urban Institute, 2011), http://www.urban.org/url.cfm?ID=412281.

- Cap expected lifetime benefits for a couple at, say, $1 million in Social Security and Medicare, or, say, $700,000 in Social Security.
- Gradually adjust the retirement age or ages so they provide a fixed, rather than continually growing, number of years of support.
- Index growth in benefits more slowly for higher-income workers.

For those who believe that Social Security, or Social Security and Medicare, will come somehow back into balance in the future, one advantage of triggers over other reforms is they only get pulled when that optimistic view is wrong.

Triggers also allow gains from efforts, say, to increase labor supply to translate to higher benefits since, if successful, they will reduce imbalances and the need to pull the triggers as much. In that way, the risk that the system will go back out of balance is reduced. With triggers, we are less likely to overshoot or undershoot the amount of reform needed.

The first option would start with the richest beneficiaries and give them choices on how their million dollar–plus—but not growing—benefit package would be allocated. They could decide, for instance, to receive fewer years of support or a lower level of benefit in their 60s. If the insurance value of Medicare is folded into the reform, over time they might also be offered less expensive options as a way of saving money. Unlike most of Medicare today, the richest beneficiaries would then share in the saving generated by choosing lower-cost options—a potentially crucial requirement for ever getting real health reform. This broader reform also folds in choices on premium costs in Medicare with the cash payments in Social Security—issues that ideally should be considered together.

Capping lifetime benefits, over time, is sufficient by itself to restore long-term balance to Social Security or Social Security and Medicare, although some other intermediate adjustments may be needed because of how swiftly the baby boomers are retiring. Although there are some technical aspects in deciding exactly how to perform the calculations (e.g., what interest rate to provide to beneficiaries for delayed benefits), the proposal has the great advantage of being both intuitively understandable and revealing of how expensive our elderly and near-elderly programs have become.

Benefits could be raised beyond $700,000 or $1 million, or whatever maximum amount is determined, but the actions would be done on a discretionary rather than automatic basis—thus competing with other priorities such as education, welfare, and defense.

The second and third options don't cut benefits relative to where they are now. They simply ask future retirees to forgo higher levels of benefits while these entitlement programs are out of balance and while many other groups are being asked to bear in the burden of dealing with our national debt.

Look at the lifetime benefit table. In the midst of the current debt crisis, with potential benefit cuts and tax increases for many workers and children, Congress still passively increases lifetime Social Security and Medicare benefits for every year's cohort between 2010 and 2030 by about $10,000 annually. Indeed, Congress this year essentially "voted" to grant significantly higher benefits to retirees in 2012 than 2011 and to retirees in 2013 than 2012.

Adjusting the retirement age and indexing benefit growth are fairly progressive ways of making benefit adjustments; combined with the various minimum benefit proposals I suggest below, they would be more progressive yet. For the most part, they ask the most of higher-income recipients, who are expected only to accept restrained growth relative to current recipients. The retirement age proposal, in turn, allows benefits to be concentrated more in old age and was discussed earlier as a way to cap growth in benefits. In the next section, I reexamine that option and related options to increase labor force participation.

Encourage Greater Labor Force Participation

Social Security's current fiscal dilemma centers almost entirely on labor force issues—the drop in scheduled workers per retiree. At the same time, the extraordinary expansion in years of support has morphed the system into a middle-age retirement system that threatens the well-being of the older elderly. Consider some of the consequences of the current system:

- Close to a third of the adult population is scheduled to be on Social Security within about 20 years.
- People already retire on average for close to a third of their adult lives.
- For a couple retiring today at age 62, benefits are expected to last about 27 years—rising to close to three decades for those who are middle aged today.
- When Social Security was young—for instance, in 1940 and 1950—the average worker retired at about age 68. To retire for an equivalent number of years on Social Security, a person would retire at age 75 today and age 80 in another 60 years (figure 2)—rather than 63 to 64, the age at which the average worker retires today.
- By constantly increasing benefits to middle-age retirees, at least as defined by life expectancy, smaller and smaller shares of Social Security benefits are being devoted to the elderly (figure 3).
- Saving declines because people retire in what used to be their peak saving years. For instance, when a person retires for 20 years versus 15, he spends both five fewer years saving and five more years spending down his or society's savings.

Believe it or not, there is tremendous opportunity in all of this. People in their late 50s, 60s, and 70s have now become the largest underused pool of human resources in the economy. For the labor force, they represent for the first half of the 21st century what women did for the last half of the 20th century. I believe the labor demand for these workers will grow over time, and it is mainly our institutions, public and private, that are blocking us from fully using these valuable and talented people.

Three types of reform can help address these issues:

- Increase the early and normal retirement ages (perhaps combined into a simpler "earliest age of retirement, with actuarial adjustments for later retirement").
- Backload benefits more to older ages.

- Provide simpler options for people to purchase the higher Social Security annuity already available to them in theory, but currently made difficult to obtain for those considering partial retirement, set-aside of other funds, or partial receipt of Social Security.

Again, we should undertake these benefit reforms even if the system was in balance and all the saving was devoted back to Social Security. Increasing the retirement age would allow us to devote greater resources to the truly old. Increasing the early retirement age, interestingly, does little for Social Security balances because of actuarial adjustments, but it could help significantly increase tax collections, including the income tax.

By encouraging work, these proposals also become revenue raisers. At any given tax rate, they provide for higher lifetime benefits because of the additional revenues, while annual benefits are raised quite substantially because those higher lifetime benefits are concentrated on fewer years.

For all these reasons, an increase in the retirement ages (including the early retirement age, else it is just an across-the-board benefit cut) causes the least hardship of almost any benefit cut.

I recognize that some people are concerned about lower-income groups with shorter than expected life expectancies. But attempting to address their needs by granting the many healthy among us a 20th, and 21st, and 22nd year of transfer support and tens, if not hundreds, of thousands of dollars in extra benefits is a very bad form of trickle-down policy. As discussed below, an increase in the retirement age can be combined with other provisions that help, rather than hurt, these lower-income groups.

Whatever the level of lifetime benefit that is settled upon in a final reform package, actuarial adjustments can provide more benefits later and fewer earlier. These adjustments can take various forms, such as an increase in annual benefits at the point that Social Security predicts that average life expectancy has fallen below, say, 12 years (about age 74 in 2005) and a decrease in earlier ages. Another would be to wage-index benefits after retirement, offset by lower up-front payments in the early years. This type of "back loading" has all the right effects. It progressively moves benefits to later ages when people have less ability to work, lower income, and less help from a spouse to deal with impairments. It puts labor force incentives where they are most effective—in late middle age, including the 60s, when most people report being in fair, good, or excellent health.

In this context, I should mention my mixed feelings about the proposal to amend the cost-of-living adjustment (COLA). I think there is a good case for basing any COLA on what we may believe to be the most appropriate index of price changes. However, within Social Security, a COLA adjustment downward front-loads benefits even more. That is, it might cut back on benefits in a second year of retirement by less than 1/3 of 1 percent, but by close to 10 percent near the end of one's life. If such an adjustment is made, it is more important than ever to offset such front-loading with a more back-loaded package of benefits. By the way, this is yet another example of the problem with deciding on annual benefits first, rather than on the lifetime benefit package first, which then can be allocated in the fairest and most effective way thereafter.

Finally, I also suggest that we can provide vast simplification in the earnings test and the delayed retirement credit. These technical provisions are extremely confusing and lead individuals mistakenly to believe that the decisions to retire, to take Social Security benefits, or to purchase a higher level annuity are somehow are all tied together. In point of fact, I have suggested that it is possible to design an annuity option within Social Security that would not cost any more than current law, would closely replicate options hidden within the actuarial adjustments already provided by Social Security, and would effectively give people a ready way to get greater annuity protection in old age.[2]

Improve the Equity and Efficiency of the Existing System

Various other reforms should be part of any Social Security package. Simply put, the current system is designed poorly for the needs of the modern family and economy. Today, ever-increasing Social Security benefits have had relative weak effects on protecting the poor and on the very old *for the additional dollars spent*. The current system spends a lot more every year with only modest marginal effects on reducing poverty and near poverty.

Social Security also consistently violates notions of equal justice by taxing more or paying less to those who are equally situated. Many of these inequities also have extremely perverse anti-work and inefficiency aspects. The major causes of many of these problems are provisions that initially were meant to help some of those who might be vulnerable, but in fact were poorly targeted. In particular, the Social Security spousal and survivor benefit—unlike that in U.S. private pensions and public pensions in most countries around the world—provides "free" transfers whose generosity increases the richer the person one marries. This benefit is free in the sense that no additional contribution is required.

In a private pension system, many of these forms of discrimination would be declared illegal. There, standards of fairness require that spousal and survivor benefits normally should be actuarially determined through higher contributions or lower initial worker benefits. Social Security's particular design structure is largely built around a decades-old stereotypical (but never very accurate) view of the two-parent family with only one worker. As a result, the current system

- discriminates against working single heads of household (disproportionately lower-income minorities), who often receive substantially fewer benefits than others who pay fewer taxes and raise fewer children—the *anti-welfare reform effect*;
- discriminates against two-earner couples, who can receive substantially fewer lifetime benefits than one-earner couples who have the same income and pay no more in tax—the *anti-working spouse effect*;
- discriminates against longer-term workers by providing substantially higher benefits to the person who works 30 years at $40,000 than the person working 40 years at $30,000—the *anti-long-term-worker effect*;
- provides multiple spousal and survivor benefits at no additional cost for the worker with multiple marriages lasting more than 10 years, while simultaneously granting no share of a worker's benefits whatsoever to spouses married to that worker for less than 10 years—the *divorce roulette wheel effect*;

[2] C. Eugene Steuerle, "How Social Security Can Costlessly Offset Declines in Private Pension Protection" (Washington, DC: The Urban Institute, 2010). http://www.urban.org/url.cfm?ID=901355.

- rewards divorced partners more when their former partner dies than when he lives—the *Agatha Christie effect*;
- penalizes some divorcees, widows, and widowers who marry someone who earns less than their former spouse—the *marriage penalty effect*;
- provides more lifetime benefits to couples with large age gaps between partners—the *trophy spouse effect*;
- penalizes many widowers and widows if they marry someone with lower earnings than their former spouse (the *marriage penalty effect*); and
- provides extra children's benefits to the parent, normally male, who has children later in life—the *Hollywood effect*.

At times, these differences can be huge, ranging from tens to hundreds of thousands of dollars in lifetime benefits. Figure 4, for instance, shows the difference in annual benefits alone for a low-income single parent who contributes taxes versus the benefits for a high-income spouse for whom no additional taxes are paid by either spouse. Put another way, everyone has to pay into Social Security to support spousal and survivor benefits, but only spouses and survivors can then draw money out of this part of the system.

Once again, reforming these parts of Social Security make sense regardless of its eventual size. Here are some suggestions on how it might be done:

- Provide a well-designed, wage-indexed minimum benefit to serve the low-income worker.
- Either ensure that the minimum benefit is graduated so it gives a decent benefit to those with fewer years of work history or include some minimum creditable years of contribution at a minimum earnings level for those who have supported their children.
- Determine additional family benefits for middle- and upper-income individuals in an actuarially neutral manner, requiring that survivors benefits be covered out of each worker's benefit.
- To move toward this fairer system, cap the level of existing free spousal and survivor benefits—those not paid for through actuarial adjustment.
- Count all years of work in any Social Security benefit formula.

With this combination of reforms, tomorrow's Social Security system can provide higher levels of benefits than today's for a significant share of those with lower lifetime earnings. These progressive reforms would reduce poverty and near-poverty rates (using a poverty standard adjusted for living standards or wage indexed) among the elderly.

At the Urban Institute, my colleague, Melissa Favreault, has done a lot of work (in which I have sometimes participated) on minimum benefits. This research demonstrates that at least two groups of individuals have low lifetime earnings: those with low annual earnings and those with limited years of work history. Included in this latter group are many people, primarily women, who spend significant amounts of time raising children but are poorly targeted by today's spousal and survivor benefits.

These types of adjustments can more than compensate for any losses for lower-income groups in lifetime benefits stemming from other reforms—such as increases in retirement ages.

Movement toward actuarial neutrality, in turn, would apply private pension standards to middle- and upper-income households and make sure that their benefits are shared more equitably. Different forms of benefit sharing or earnings sharing could be tried, while capping family benefits being paid for by many ineligible for them helps in the transition to this newer, fairer system. Similarly, divorced persons would be extended the types of equity rules that apply in the private pension system.

As for the proposal to count all years in determining level of benefit, no one would think to deny some people their employer's 401(k) contributions because they worked more than 35 years. There is no legitimate reason in Social Security that all years of work should not be counted. Redistribution can always be made to low-earning workers through the rate structure of the benefit formula or a minimum benefit. This change would have an additional work incentive effect as well; under current law, many years of work result only in a pure additional tax, with no additional benefit generated.

Reform Private Pension Policy

Today most middle-class retirees—not just the poor—depend primarily upon government in their retirement. Over two-thirds of those approaching retirement have less in accumulated wealth in all forms—retirement plans, housing, and saving accounts—than the value of their Social Security and Medicare benefits. Put another way, only a few households have accumulations of private assets that approach the nearly $1 million lifetime value of Social Security and Medicare for average-wage couples.

Most households, therefore, need substantially more in the way of private retirement support than they currently receive. Enacting private pension reform along with Social Security reform could significantly enhance our ability as a society to care well for our older population.

Among the proposals worthy of consideration are ones that would

- provide additional incentives for private pension and retirement plans that provide a minimum contribution level for each worker; and
- provide additional disincentives for those plans that do not provide such a minimum.

Among the incentives that can be considered are enhanced savers' credit and removal of complicated discrimination rules for plans providing such a minimum. Among the disincentives would be a lower or unindexed level of maximum contribution for plans not meeting the new standards.

These types of proposals are closely related to those recently adopted by Great Britain when it undertook its own combined Social Security and private pension reform.

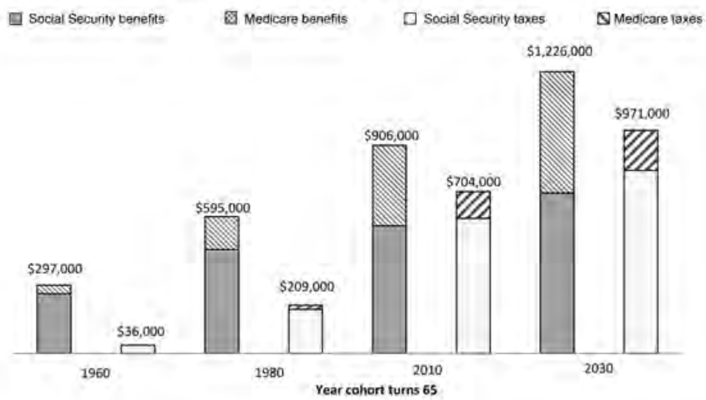
Private pension reform is a complicated subject which requires attention unto itself. Pamela Perun and I put forward some suggestions on how to put together the types of reforms noted here,[3] but my broader point is that protections in old age could be significantly enhanced if Social Security reform would be combined with an effort to increase the percentage of workers who go into retirement with some decent retirement saving.

Conclusion

Reform of the Social Security benefit structure should proceed based on such principles as progressivity, equal justice, efficiency, and individual equity. Focus needs to extend far beyond the narrow debate over solvency. Four types of reforms especially should be considered: limits on growth in benefits for less needy groups when the system is out of balance, incentives for greater labor force participation, removal of many inequities and inefficiencies that derive from many of today's poorly designed and targeted provisions, and enhancement of Social Security with a Great-Britain–like private pension reform that would provide far greater protection to many more workers.

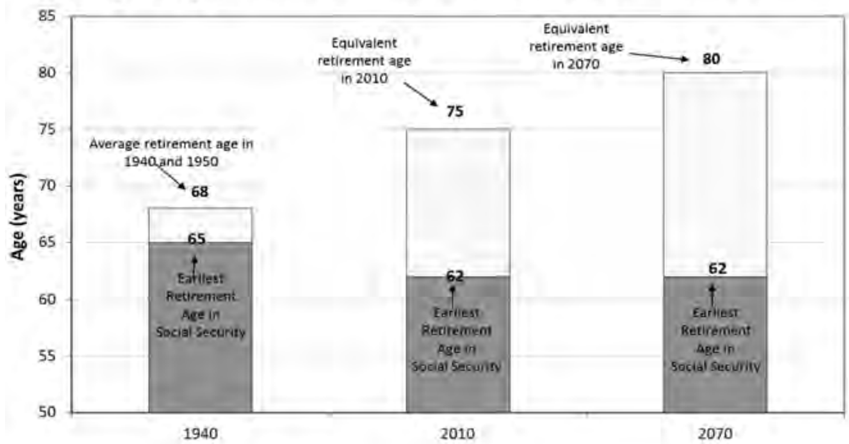
[3] For additional information, see Pamela Perun and C. Eugene Steuerle, "Why Not a 'Super Simple' Saving Plan for the United States?" (Washington, DC: The Urban Institute, 2008), http://www.urban.org/url.cfm?ID=411676.

Figure 1. Social Security and Expected Medicare Benefits and Taxes for Average-Wage, Two-Earner Couple ($43.5k each), 2011 dollars



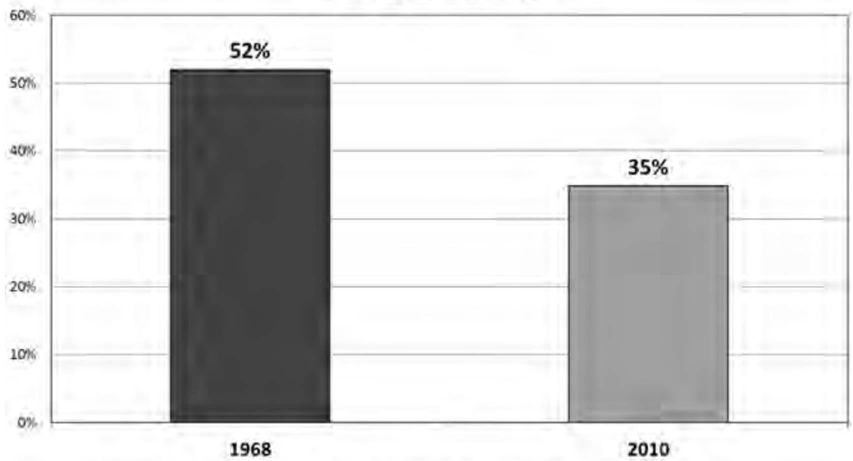
Source: C. Eugene Steuerle, 2010. Based on earlier work with Adam Carasso.
Notes: Expected rather than realized benefits. Lifetime Social Security benefits are $259,000 from 1960, $452,000 from 1980, $555,000 from 2010, and $699,000 from 2030. The "average" wage profiles are those hypothetical profiles used by the Social Security Administration in its analyses. Lifetime amounts are rounded and discounted to present value at age 65 using a 2 percent real interest rate and adjusted for mortality. Projections based on intermediate assumptions of the 2010 OASDI and HI/SMI Trustees Reports. Includes Medicare Part D.

Figure 2. Age of Retirement if Number of Years of Benefits Remain Constant



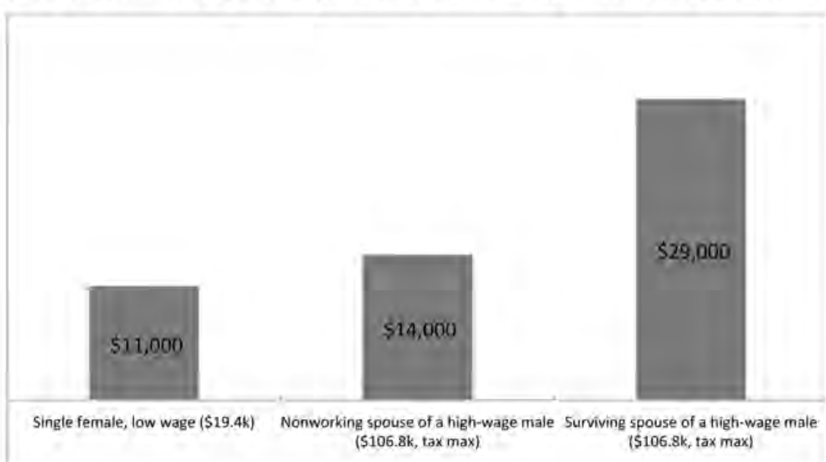
Source: Stephanie Rennane and C. Eugene Steuerle, The Urban Institute, 2010. Based on data from the Social Security Administration, birth cohort tables.

Figure 3. Proportion of Men's Social Security Benefits Going to Men With Less Than 10 Years Remaining Life Expectancy



Source: Stephanie Rennane and C. Eugene Steuerle, The Urban Institute, 2010. Based on data from the Social Security Administration's 2009 Annual Statistical Supplement.

Figure 4. Discrimination against Single Heads of Household by Annual Social Security Benefit



Source: Stephanie Rennane and C. Eugene Steuerle, The Urban Institute, 2011.
Note: Low wage is 45 percent of the average Social Security wage.

Chairman JOHNSON. Thank you, sir.
Ms. Entmacher, you may proceed.

STATEMENT OF JOAN ENTMACHER, VICE PRESIDENT FOR FAMILY ECONOMIC SECURITY, NATIONAL WOMEN'S LAW CENTER

Ms. ENTMACHER. Thank you, Chairman Johnson, Mr. Becerra, Members of the Subcommittee. Thank you for giving me the opportunity to testify on behalf of the National Women's Law Center.

I am going to shift focus from the balance sheet of the Social Security program to what Social Security means to the budgets of the Americans who rely on Social Security. Two out of three beneficiaries 65 and older get most of their income from Social Security. And for one out of three, it is virtually their only source of income. That is particularly striking when you realize that the average Social Security benefit is just $14,000 a year for older Americans, and it is just $12,000 a year for older women.

As a result, even with Social Security at its current levels, economic insecurity among the elderly persists, especially among women. And their incomes are modest. The median older beneficiary has a total income of less than $21,000 a year. That is total.

That is about what Jeanette O'Linger in Medford, Oregon, is living on right now. She is a widow, 84 years old, living alone. She worked until age 73, but her only income now, apart from a little help from her adult children, is her Social Security check. Her benefit is about $20,000 a year, so it is actually higher than average. But it is still a struggle for her to make ends meet, and she told us about it.

Forget cable TV or new clothes. What about food? She explained. "I can't afford meat any more. But every once in a while, if I see a great bargain, I will splurge on a small piece of meat. There is a special discount cheese that I like. I make very thin slices."

Slicing the cheese very thin can maybe stretch your food budget to the end of the month. But it won't cover health care. She also told us, "A couple of months ago my dentist told me that I need a root canal. I have had to put it off, because it is $800, and that would be too tough to take on now. I am taking a chance with my health, but I don't know what else I can do."

Not a lot of room to cut there. And Social Security benefits are already scheduled to decline. The retirement age is going up right now. It has already increased from 65 to 66, and rising to 67. Every year's increase in the retirement age is an across-the-board benefit cut of about seven percent at whatever age people take their benefits.

In addition, rising Medicare premiums will consume a greater portion of retirees' Social Security income.

On top of that, other sources of secure retirement income are declining. And, of course, the recession has made things worse. This adds up to a compelling case for protecting and strengthening Social Security benefits. Yet there are a number of proposals out there that would cut Social Security benefits, even for current retirees and those near retirement. So I was very pleased to hear your statement, Mr. Chairman, about the bipartisan support for protecting those people.

For example, switching to the chain CPI for calculating the cost-of-living adjustment in Social Security would cut benefits for current beneficiaries, like Ms. O'Linger. And they would produce deeper cuts with every year of benefit receipt. This change would particularly hit women, because they live longer than men, are more reliant on Social Security, and already at much greater risk of poverty as they age.

Those who say that that cut won't hurt aren't trying to live on Social Security. A cut of $56 a month represents the loss of a week of food every month for the median Social Security female beneficiary.

The Bowles-Simpson plan relies on benefit cuts for two-thirds of its savings over the next 75 years, and four-fifths of the savings in the 75th year. Restoring solvency to the Social Security program by slashing the benefits people need to live is like fixing a stubbed toe by cutting off a foot.

And there are some proposals that would cut benefits more quickly and more deeply than Bowles-Simpson. For example, the Republican Study Committee proposal to speed up the increase in the retirement age and bills that are pending on the Senate side to accelerate that increase would cut benefits for people currently between the ages of 55 and 60.

In addition, the SAFE Act introduced by Representative Sessions, which would allow the diversion of payroll taxes into private accounts would simultaneously worsen trust fund solvency and jeopardize benefits for current retirees, as chief actuary Steve Goss testified at the last hearing, and jeopardize not only the retirement benefits for workers who choose accounts, but disability and life insurance protections for their families.

I hope this—I recognize that it is important to make adjustments sooner than later, but this committee has the time to make those adjustments right, so that people don't get hurt. Thank you.

[The statement of Ms. Entmacher follows:]

NATIONAL WOMEN'S LAW CENTER
EXPANDING THE POSSIBILITIES

Testimony of Joan Entmacher, Vice President for Family Economic Security
National Women's Law Center

House Committee on Ways and Means, Subcommittee on Social Security
Hearing on Social Security's Finances and Benefits
July 8, 2011

Chairman Johnson, Ranking Member Becerra, and Members of the Subcommittee, thank you for giving me the opportunity to testify on behalf of the National Women's Law Center. My testimony will address these key points: Social Security is vital to Americans' economic security; current benefit levels are already modest; benefits are already scheduled to decline; other sources of retirement income are also declining; proposed cuts in benefits would seriously jeopardize the economic security of older Americans, especially women; we can afford to protect and improve Social Security; and the American people, across the political spectrum, oppose cutting Social Security and support raising revenue to strengthen it.

Social Security is vital to Americans' economic security

Social Security plays a critical role in protecting the economic security of Americans, as the announcement of this hearing recognizes. Through their contributions to Social Security, matched by their employers, workers earn secure retirement benefits for as long as they live and life and disability insurance protection for themselves and their families. Social Security isn't just a virtually universal pension plan for American workers, it's a family insurance program that protects millions of children who have lost the support of a parent, workers who have become disabled, and spouses, divorced spouses, and surviving spouses.

One in six Americans receives Social Security, as the announcement notes – and Social Security's impact is even greater than that statistic suggests. One in four households receives income from Social Security.[1] And many more households benefit indirectly – because the support that Social Security provides for elderly parents and grandparents gives multiple generations a greater measure of economic security and independence.

For a large majority of older Americans, retirement security isn't a three-legged stool. What they rely on is Social Security. For two-thirds of beneficiaries 65 and older, Social Security provides half or more of their income. For about one-third of beneficiaries 65 and older, Social Security is virtually their only source of income. And reliance on Social Security increases with age; four in ten beneficiaries 80 and older rely on Social Security for virtually all of their income.[2]

Social Security's role in dramatically reducing poverty among the elderly isn't just a historical achievement. An analysis of the latest Census data shows that without income from Social Security, 45 percent of Americans 65 and older, half of women 65 and older, and two-thirds of elderly single women would be poor. And Social Security is a major anti-poverty program for children; without income from Social Security, more than one million additional children would fall into poverty.[3]

Social Security's current benefits are modest

The importance of Social Security to Americans' economic security is particularly striking since current benefits are modest. The average Social Security benefit for all beneficiaries 65 and older is about $14,000 annually: $12,000 for women 65 and older and a little less than $16,000 for men.[4] And benefits aren't lavish for anyone; the benefit at full retirement age for a worker who had earned the maximum taxable wage throughout a career is a little over $28,000 a year.[5]

By international standards, Social Security benefits are modest. For a worker with median earnings over a career, Social Security replaces about 41 percent of pre-retirement earnings. That puts the U.S. 26th among the 30 OECD countries, which provide, on average, 61 percent of pre-retirement earnings through their public pension systems.[6]

Even with Social Security, poverty and economic insecurity among the elderly, especially among women, remains a problem. In 2008, 7.8 percent of beneficiaries 65 and older were below the official poverty line. The poverty rate for female beneficiaries 65 and older was twice as high as the rate for men: 9.9 percent compared to 4.9 percent. Nearly one in five (17.9 percent) female beneficiaries 65 and older were near-poor, with incomes below 125 percent of poverty, as were 14.3 percent of all beneficiaries and 9.5 of male beneficiaries 65 and older.[7]

Economic insecurity among the elderly persists further up the income scale. For beneficiaries 65 and older in the middle income quintile, median total income was less than $21,000 a year. According to the National Elder Economic Security Index, that's about what it takes for a single elderly individual who rents housing to make ends meet.[8] For those in the second-highest quintile, median total income was $30,000. For beneficiaries in the highest income quintile – the only income quintile that didn't get most of its income from Social Security – median income was $50,000.[9] Beneficiaries in the highest income quintile are disproportionately younger, married, and often still working. But things change. As these beneficiaries age, stop working, or are widowed, their incomes will decline, and their reliance on Social Security will increase.[10]

Living on Social Security

Statistics can't convey what Social Security means to the people who depend on it. People like Jeannette O'Linger in Medford, Oregon. She's widowed and living alone in Medford, Oregon. She worked her whole life, up until she was 73, but has no pension. Her only income, apart from a little help from her adult children, whom she hates asking for help because "they've got their own financial pressures from the recession," is her Social Security check. Her benefit is $1,673 a month, about $20,000 a year, so it's higher than average. "I know that I couldn't survive without it. I'm grateful for Social Security, but it's really not enough money to live on."

Ms. O'Linger described how she manages. "I'm a very frugal person. Always have been. I don't have cable…that's a luxury. I shop for food very carefully, too. I can't afford meat anymore, but every once in awhile if I see a great bargain, I'll splurge on a small piece of meat. There's a special discount cheese that I like. I make very thin slices…. I'm careful about keeping my clothes in good condition. I know that I don't have the option to buy new ones."

But these persistent economies can't take care of everything. "My expenses keep going up. I've had recent medical bills…. Just for the MRI, that was unexpected, I had to pay $162 as my co-pay…. A couple of months ago my dentist told me that I need a root canal. I've had to put it off because it's $800 and that would be too tough to take on now. I'm taking a chance with my health but I don't know what else I can do."

Social Security benefits are already declining for future retirees

In 1983, Congress enacted a number of changes to Social Security, including an increase in the full retirement age that cut benefits for everyone born in 1938 or later. For those born between 1943 and 1959, the full retirement age has already increased from age 65 to age 66; it will reach 67 for those born in 1960 or later.

An increase in the retirement age is an across-the-board benefit cut of about seven percent for every year's increase in the full retirement age. The reduction applies regardless of the age at which workers claim benefits. Those who claim benefits before reaching full retirement age experience the cut as a larger reduction for early retirement; those who wait until the new full retirement age or beyond get smaller, or no, increases from delayed retirement credits.[11] Although the percentage cut from an increase in the full retirement age is the same at all income levels, it will cause greater hardship to some beneficiaries, especially those in poor health or physically demanding jobs who cannot continue working and those who are most reliant on Social Security.

In addition, rising Medicare premiums will consume a greater portion of retirees' Social Security income. In 2010, the full Social Security check represented 41 percent of the pre-retirement earnings of a medium earner. After deducting 2010 Medicare premiums, Social Security benefits in 2010 for a medium earner would replace 37 percent of pre-retirement earnings. In 2030, the combination of rising Medicare premiums and the increase in the retirement age means that Social Security will replace just 32 percent of the pre-retirement income of an average earner.[12]

Some would argue that reducing the percentage of pre-retirement income that future retirees receive is not a benefit cut, if initial benefits keep pace with inflation. But the purpose of Social Security is to provide Americans with the foundation for a secure retirement. If Social Security replaces a smaller share of pre-retirement earnings, it means a drop in living standards for future retirees compared both to their own living pre-retirement standard of living and to the standard of living enjoyed by the rest of society.

Financial planners generally recommend aiming for a retirement income that is 70 percent of preretirement income; if Social Security provides a smaller percentage of pre-retirement income, workers will have a much larger gap to fill. Given what's happening with other sources of retirement income, that's likely to mean a larger drop in living standards for future retirees. In addition, if initial Social Security benefits for future beneficiaries don't keep pace with the growth in average wages, but only with the increase in prices, their benefits won't reflect the increase in overall living standards during the years they were working. As Edward Gramlich – noted economist, former Chair of the Social Security Advisory Commission and former Federal Reserve governor observed in 2004, "If the system had not been wage indexed, [retirees] would be living today at 1940s living standards."[13]

Other sources of retirement income are also declining

The decline in already modest Social Security benefits is particularly worrisome because other sources of retirement income are also declining. Even before the start of the Great Recession, defined benefit pensions were disappearing. In 2010, only about 20 percent of the private sector workforce was covered by a defined benefit pension plan.[14] Thus, for the vast majority of Americans, Social Security will be their only source of secure, lifetime income in retirement.

The shift by employers from defined benefit to defined contribution plans did not increase the percentage of workers covered by employer-sponsored retirement plans. About half of the workforce did not participate in any sort of an employer-sponsored retirement plan in 2010,[15] a percentage that has barely changed in thirty years.[16] In addition, even those workers who participate in employer-sponsored retirement savings plans are unlikely to have saved enough to provide for a secure retirement: in 2007, before the start of the recession, the median retirement account balances for householders approaching retirement (that is, aged 55-64) was $100,000.[17]

Moreover, the recent recession had a disastrous impact upon retirement savings. The value of the equities in which 401(k) and IRA account holders had invested dropped precipitously; in 2010, two-thirds of individuals over the age of 50 reported that their retirement savings account balances had declined in the previous three-year period.[18] Many employers suspended employer matches of employee contributions to 401(k)-type plans.[19] As of March 2008, one-fifth of all private sector workers participating in defined benefit plans were affected by a "freeze" of their defined benefit plan.[20] A significant percentage of workers reduced their contributions, or stopped contributing altogether, to their employer-sponsored retirement savings accounts.[21] Workers who were unemployed had to dip into their 401ks or IRAs, and were more likely to do so the longer they were unemployed.[22]

Although the stock market has recovered much of the value it lost during the financial crisis, instability remains, and the impact of freezes and withdrawals on account balances will persist. In addition, many older Americans not only saw their retirement savings decline, but also lost value in their homes – a major asset – or accumulated high-cost credit card debt.[23] Accordingly, the percentage of Americans estimated to be "at risk" for income insecurity in retirement has risen from 44 percent to 51 percent as a result of the recession.[24]

Social Security benefits should be protected, not cut.

The fact that Social Security benefits are critically important, already modest, already shrinking, yet more important than ever because other sources of retirement income are becoming less secure adds up to a compelling case for protecting and improving Social Security benefits. So it's worrisome that proposals are being advanced that would cut Social Security benefits and expose millions of Americans to greater insecurity and hardship.

One proposal that is reportedly being considered in the context of deficit reduction negotiations would change the way the cost-of-living adjustment is calculated in Social Security. Including cuts to Social Security in a package to reduce the federal deficit is inappropriate for two reasons. First, Social Security hasn't contributed to our current federal deficits. It's a social insurance program with its own dedicated financing and a Trust Fund of over $2.6 trillion, built up by the contributions of workers and employers, to help finance the retirement of the baby boomers. Americans are counting on the pension and insurance benefits they've earned; those benefits shouldn't be cut because there's an imbalance in the rest of the federal budget. Second, as this hearing has shown, Social Security is a large and complex program that touches the lives of virtually every American at some stage. Changes to Social Security should be considered carefully by this Subcommittee through regular order, to ensure that the impacts on diverse beneficiaries are fully considered.

For example, NWLC's analysis of the proposal to change the index used to calculate the COLA by switching to the "chained Consumer Price Index" – which sounds like just a technical change – found that it would have a particularly harmful impact on the economic security of older women. Switching to the chained CPI would reduce the annual COLA – and the cuts from a reduced COLA grow deeper with every year of benefit receipt. Women would face the most painful cuts from this proposal for several reasons. They would experience the deepest cuts because of their longer life expectancies. They rely more on income from Social Security than men do, especially as they age – so the same percentage cut in Social Security represents more of their total income. And older women are already at greater risk of poverty and economic insecurity.[25]

The cuts from switching to the chained CPI add up over time. For example, for a woman who gets a benefit of $1,100 a month at age 65 – about the median monthly benefit for all single women 65 and older – the reduced COLA would mean $56 less per month at age 80. That may not sound like a lot of money to some people. But for a woman who depends on her Social Security check to get by, it represents the loss of a week's worth of food – every month. And the cuts get deeper as women get older. At age 90, the cuts would be equivalent to 20 weeks of food that year.

Switching to the chained CPI can't be justified on the grounds that it is a more accurate measure of changes in the cost of living for Social Security beneficiaries. In fact, the current COLA already underestimates the effects of inflation on the elderly because it fails to account for a crucial fact—that older people spend a much larger share of their budget on health care, where costs are rising much more quickly than with other expenses.

But even in the context of a discussion about extending the solvency of Social Security for 75 years or beyond, the ultimate goal must be clear. Improving Social Security's solvency is important—it assures current and future workers that they will get the benefits they have earned and are counting on for themselves and their families. But achieving solvency—making Social Security's books balance over an extended period—is not an end in itself. You can achieve solvency simply by cutting benefits deeply enough. But restoring solvency to the Social Security program primarily by cutting the Social Security benefits Americans depend on is like curing a stubbed toe by cutting off a foot.

Unfortunately, a number of current proposals for restoring solvency do rely primarily on benefit cuts. For example, the report endorsed by 11 members of the President's Commission on Fiscal Responsibility and Reform, chaired by Erskine Bowles and former Senator Alan Simpson[26] relies on benefit cuts for two-thirds of the savings over the next 75 years and four-fifths of the savings in the 75th year.[27]

The Bowles-Simpson plan proposes to cut Social Security benefits three ways: by increasing the full retirement age further, to age 69; reducing the COLA by switching to the chained CPI; and changing the benefit formula. As discussed earlier, increasing the retirement age and a reduction in the COLA are both across-the-board benefit cuts that affect workers at all earnings levels. The change in the benefit formula proposed in the Bowles-Simpson report has been called "progressive" because it would cut benefits more deeply for middle- and higher-income workers than for lower earners. But this benefit formula change doesn't spare the poor; the cuts begin for workers with average earnings of about $9,000 per year.

Under the Bowles-Simpson plan, the COLA cut would take effect immediately. The retirement age increase and benefit formula change would phase in over time, so today's children and grandchildren, in whose name the plan has been advanced, would face the deepest cuts.[28] For workers with medium earnings – about $43,000 per year in today's dollars – the combined cuts in the Bowles-Simpson plan would reduce benefits for by 13 percent in 2050 and 19 percent in 2080. For workers whose earnings averaged $69,000 per year, the combined cuts would be 27 percent in 2050 and 35 percent in 2080. And these are the cuts at age 65 – the COLA change would reduce benefits further as these beneficiaries age.[29]

The Bowles-Simpson report recognizes the need to improve Social Security benefits for vulnerable beneficiaries. It proposes two specific benefit enhancements: an improvement in the special minimum benefit and a small bump-up in benefits that starts phasing in 20 years after initial eligibility. But these proposals aren't add-ons to existing benefits; they're part of a plan that includes deep benefit cuts. Many beneficiaries at the lowest earnings levels would get nothing from these proposals, or would find that they offset only a portion of the plan's benefit cuts.[30]

Some proposals advanced in this Congress would cut benefits more quickly, more deeply, or both, than the Bowles-Simpson proposals. H.R. 2109, the Savings Account for Every American Act, introduced by Representative Sessions, would allow workers to divert their payroll tax contributions into private accounts. That would reduce funding for Social Security to pay promised benefits and accelerate the date of Trust Fund exhaustion. In response to a question at a hearing before this Subcommittee last month, Social Security's Chief Actuary, Stephen Goss, stated that the ability of Social Security to pay benefits to current retirees, or those nearing retirement, would be severely compromised. Under H.R. 2109, workers who elect accounts would be ineligible to receive Social Security benefits on earnings after that election – including not only their own retirement benefits, but disability benefits and benefits for family members.

The budget proposed by the Republican Study Committee would accelerate the increase in the retirement age, cutting benefits for all those currently under 60, and raise the retirement age to 70 for those born in 1975 or later.[31] A bill introduced by Senator Hutchison, S. 1213, the "Defend and Save Social Security Act," would start raising the full retirement age for those reaching age 62 in 2017 and reach age 69 for individuals reaching age 62 in 2027; the Early Eligibility Age, now age 62, would also be increased gradually to age 64. By 2030, these changes to the retirement age would reduce benefits by 13.5 percent at age 65 at all benefit levels.[32] In addition, Senator Hutchison's bill would reduce the COLA by one percentage point per year (by comparison, switching to the chained CPI would reduce benefits by 0.3 percentage points per year). For workers at all earnings levels who begin receiving benefits in 2030 or later, the full proposal would reduce benefits at age 75 by 23 percent; at age 85 by 30 percent; and age 95 by 36 percent. "The Social Security Solvency and Sustainability Act," S. 804, introduced by Senators Graham, Paul and Lee, would accelerate the increase in the retirement age, starting with individuals reaching age 62 in 2017; reach age 70 for individuals reaching age 62 in 2032; and be indexed after that to maintain a constant ratio of retirement years to potential work years. In addition, S. 804 would modify the benefit formula; reductions would start for workers with earnings above the 40th percentile (equivalent to $30,900 in 2010) and increase for higher earners. This proposal would reduce benefits for very low earners ($10,771 in 2010) by 12 percent in 2030, 22 percent in 2050, and 29 percent in 2080. It would reduce benefits for medium earners ($43,084 in 2010) by 16 percent in 2030, 32 percent in 2050, and 39 percent in 2080. For "high" earners ($68,934 in 2010), it would reduce benefits by 20 percent in 2030, 41 percent in 2050, and 49 percent in 2080.[33]

The nation can afford to protect and strengthen Social Security

There is no need, and no justification, for cutting the Social Security benefits that are so critical to the economic security of Americans young and old. Social Security is not in crisis. With no changes, Social Security's dedicated revenues and reserves can pay 100 percent of promised benefits until 2036. At that point, the Trust Fund will be exhausted, but the incoming revenues will cover about 75 percent of promised benefits for the remainder of the 75-year period. In contrast, in 1983, Social Security was within months – not decades – of exhausting the Trust Fund and having insufficient funds to pay full benefits.

It would be better to make adjustments sooner rather than later. But Congress certainly has the time to do it right.

Social Security's costs are manageable. They will increase because the population is aging, peaking at 6.2 percent of GDP in 2035. But – in contrast to health care – Social Security's costs will decline slightly after that and stabilize, remaining at about 6 percent of GDP for the remainder of the next 75 years.

To put Social Security's financial challenges into perspective: as a share of the economy, the increased cost of Social Security between now and 2035 is smaller than the growth in spending for public education that occurred when the baby boomers were children.[34] The cost of eliminating the 75-year shortfall in Social Security is only slightly less than the revenue loss from extending the Bush-era tax cuts just for people making over $250,000 — the top 2 percent of Americans.[35]

If Congress chooses to focus on protecting Social Security benefits, rather than cutting them, the testimony of Chief Actuary Stephen Goss to this Subcommittee and a report of the National Academy of Social Insurance present a variety of options for raising revenue that could eliminate the shortfall – and finance needed benefit improvements.[36]

Social Security benefits should be improved

Half of American households are at risk of not having enough income to maintain their standard of living in retirement, and when health care costs are included, the number rises to six in ten.[37] Congress should be looking at ways to increase Americans' retirement security – and improving Social Security benefits is the most effective strategy for doing that.

Social Security already has many of the features of an ideal pension system. It's virtually universal; fully portable between jobs; covers low-paid, part-time and temporary workers and the self-employed; provides secure, predictable, life-long retirement benefits not subject to the ups and downs of the market or the risk of depletion prior to reaching retirement; is adjusted to keep up with increases in the cost of living; provides benefits to spouses, surviving spouses, and divorced spouses, and dependent children; includes disability and life insurance protections as well as retirement benefits; imposes few responsibilities on employers; and is highly efficient, spending less than 1% of the funds collected each year on administrative costs.[38]

There are a number of ways to improve the adequacy of Social Security benefits. Some are targeted to vulnerable populations, including: increasing the special minimum benefit for low earners; providing credits for caregiving years; increasing benefits for widowed spouses of lower-earning couples; reinstating the student benefit; increasing benefits for long-term beneficiaries; reducing work disincentives for people with disabilities; and eliminating restrictions on benefits for disabled widows. Recognizing that retirement insecurity is a widespread problem, other proposals would improve benefits more broadly; for example, by increasing the basic benefit by a fixed amount or adopting a more accurate cost-of-living adjustment that would increase annual adjustments to reflect beneficiaries' higher health care costs.[39]

In addition, Congress should consider improvements to Supplemental Security Income, a program that provides income support to low-income elderly people and people with disabilities. The $20 per month "unearned income" disregard (Social Security benefits are considered "unearned") and $2,000 per person, $3,000 per couple asset limit have not been changed in decades, and benefits fall short of a poverty-level income.

Polls show bipartisan opposition to Social Security cuts and bipartisan support for raising revenue to strengthen Social Security

A 2010 poll of election voters by Lake Research Partners found overwhelming opposition (82 percent) to cutting Social Security benefits in order to reduce the deficit, with 83 percent of Democrats, 82 percent of Republicans, 78 percent of Independents, and 74 percent of Tea Party supporters opposed. Cutting Social Security benefits to make the program solvent in the long term was opposed by 67 percent overall: 78 percent of Democrats, 58 percent of Republicans, 66 percent of Independents, and 51 percent of Tea Party supporters. Large majorities across the political spectrum opposed raising the retirement age to 69 and reducing Social Security benefits for people earning above $60,000.

Even more striking is the strong support across the political spectrum for taxing wages above $106,800 for Social Security: 73 percent of Democrats, 59 percent of Republicans, 66 percent of Independents, and 60 percent of Tea Party supporters supported this approach to making the program more solvent.[40]

In a 2009 poll by the National Academy of Social Insurance and the Rockefeller Foundation, over 70 percent in every age group – including 79 percent of those ages 18 to 34 -- agreed that "it is critical that we preserve Social Security for future generations even if it means increasing working Americans' contributions to Social Security taxes." And, although most Americans pay more in Social Security payroll taxes than they do in federal income taxes, over 80 percent of Democrats, Republicans, and Independents agreed that, "I don't mind paying Social Security taxes because it provides security and stability to millions of retired Americans, the disabled, and children and widowed spouses of deceased workers."[41]

Indeed it does, and it can and should continue to provide this support. I thank the Subcommittee for giving me this opportunity to testify.

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[1] National Academy of Social Insurance, *Social Security Benefits, Finances, and Policy Options: A Primer* 4 (May 2011), *available at* http://www.nasi.org/sites/default/files/research/NASI_Social_Security_Primer_May%202011.pdf (last visited July 7, 2011).

[2] All data in this paragraph are from U.S. Social Security Administration, *Income of the Population 55 or Older, 2008* tbl. 9.A1 (2010), *available at* http://www.ssa.gov/policy/docs/statcomps/income_pop55/2008/index.html (last visited July 7, 2011) (hereinafter "*Income of the Population 55 and Older*").

[3] All data in this paragraph are from NWLC calculations based on U.S. Census Bureau, *Current Population Survey, Annual Social and Economic Supplement* (2010) (using CPS Table Creator II, *available at* http://www.census.gov/hhes/www/cpstc/apm/cpstc_altpov.html (last visited July 7, 2011)).

[4] U.S. Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin 2010*tbl. 5.A16 (2011), *available at* http://www.ssa.gov/policy/docs/statcomps/supplement/index.html (last visited July 7, 2011).
[5] *Id.* at tbl. 2.A26.
[6] Kathy A. Ruffing & Paul N. Van de Water, Center on Budget and Policy Priorities, *Social Security Benefits Are Modest: Policy Makers Have Only Limited Room to Reduce Benefits Without Causing Hardship* (Jan. 11, 2011), *available at* http://www.cbpp.org/files/1-11-11socsec.pdf (last visited July 7, 2011).
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[8] Wider Opportunities for Women, *National Elder Economic Security Index* (Nov. 2010), *available at* http://www.wowonline.org/documents/NationalFactSheetNovember2010.pdf (last visited July 7, 2011).
[9] Ruffing & Van de Water, *supra* note 6, at 3.
[10] *Income of the Population 55 and Older*, *supra* note 2, at tbl. 3.A6.
[11] Ruffing & Van de Water, *supra* note 6, at 6.
[12] *Id.* at 7.
[13] Robert Greenstein, Center on Budget and Policy Priorities, *So-Called "Price Indexing" Proposal Would Result in Deep Reductions over Time in Social Security Benefits* 9 (Jan. 28, 2005), *available at* http://www.cbpp.org/files/12-17-04socsec.pdf2 (last visited July 7, 2011) (citing Greg Ip, "Social Security: Five Burning Questions," *Wall Street Journal Online* (Dec. 19, 2004)).
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[15] *Id.* (reporting that about 65% of private-sector workforce had access to employer-sponsored retirement savings plan in 2010 and about 50% of private-sector workforce participated in an employer-sponsored retirement savings plan).
[16] Testimony of Ross Eisenbrey, Vice President, Economic Policy Institute, to the Senate Committee on Health, Education, Labor and Pensions, *The Wobbly Stool: Retirement (In)security in America* 6 (Oct. 7, 2010), *available at* http://help.senate.gov/imo/media/doc/Eisenbrey.pdf (last visited July 7, 2011).
[17] Patrick Purcell, Congressional Research Service, *Retirement Savings and Household Wealth in 2007* tbl. 5 (Apr. 8, 2009), *available at* http://assets.opencrs.com/rpts/RL30922_20090408.pdf (last visited July 7, 2011).
[18] Sara Rix, AARP Public Policy Institute, *Recovering from the Great Recession: Long Struggle Ahead for Older Americans* 9 (May 2011), *available at* http://assets.aarp.org/rgcenter/ppi/econ-sec/insight50_recovering.pdf (last visited July 7, 2011).
[19] Alicia H. Munnell & Laura Quinby, Center for Retirement Research at Boston College, *Why Did Some Employers Suspend Their 401(k) Match?* 4 (February 2010), *available at* http://crr.bc.edu/images/stories/Briefs/IB_10-2.pdf (last visited July 7, 2011) (estimating that over 200 companies suspended 401(k) matching contributions between January 2008 and November 2009).
[20] U.S. Dep't of Labor, Bureau of Labor Statistics, *The Editor's Desk, Frozen Defined Benefit Pension Plans in March 2008* (Aug. 31, 2009), *available at* http://www.bls.gov/opub/ted/2009/ted_20090831.htm (last visited July 7, 2011).
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[23] Rix, *supra* note 18, at 2.
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http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf (last visited July 7, 2011) (hereinafter "Bowles-Simpson Report").

[27] Ruffing & Van de Water, *supra* note 6.

[28] Virginia Reno & Elisa Walker, National Academy of Social Insurance, *Social Security Across Generations: Benefit Cuts Will Fall on Today's Children and Grandchildren* (Jan. 2011), *available at* http://www.nasi.org/sites/default/files/research/SS%20Fact%20Sheet%20No.01_Social%20Security%20Across%20Generations.pdf (last visited July 7, 2011).

[29] U.S. Social Security Administration, Office of the Chief Actuary, *Memo to Fiscal Commission Bipartisan Policy Center's Debt Reduction Task Force: Enhanced benefit illustrations for the December 1, 2010 plan developed by National Commission on Fiscal Responsibility and Reform and the November 17, 2010 plan developed by the Bipartisan Policy Center's Debt Reduction Task Force* (Feb. 2, 2010), available at http://www.ssa.gov/oact/solvency/index.html (last visited July 7, 2011). These estimates assume that average earners would get some relief from the "illustrative hardship exemption" from the increase in the retirement age. The Bowles-Simpson Report did not endorse that hardship exemption, however; without it, the cuts would be deeper.

[30] *Id.*

[31] Republican Study Committee, *Honest Solutions: Fiscal Year 2012 Budget* 17 (Apr. 2011) *available at* http://rsc.jordan.house.gov/UploadedFiles/Honest_Solutions_Final.pdf (last visited July 7, 2011).

[32] U.S. Social Security Administration, Office of the Chief Actuary, *Memo to Senator Kay Bailey Hutchison: Estimated Financial Effects of a Proposal to Restore 75-Year Solvency for the Social Security Program Requested by Senator Kay Bailey Hutchison* (June 9, 2011), *available at* http://www.ssa.gov/oact/solvency/index.html (last visited July 7, 2011).

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[36] *See* Testimony of Stephen C. Goss, Chief Actuary, Social Security Administration to the House Committee on Ways and Means Subcommittee on Social Security (June 23, 2011), *available at* http://waysandmeans.house.gov/UploadedFiles/Goss_Testimony.pdf (last visited July 7, 2011); Virginia P. Reno & Joni Lavery, National Academy of Social Insurance, *Fixing Social Security: Adequate Benefits, Adequate Financing* (October 2009), *available at* http://www.nasi.org/sites/default/files/research/Fixing_Social_Security.pdf (last visited July 7, 2011).

[37] National Retirement Risk Index, Center for Retirement Research at Boston College, *available at* http://crr.bc.edu/special_projects/national_retirement_risk_index.html (last visited July 7, 2011).

[38] Virginia Reno & Joni Lavery, National Academy of Social Insurance, *Social Security and Retirement Income Adequacy* (May 2007), *available at* http://www.nasi.org/publications2763/publications_show.htm?doc_id=482679 (last visited July 7, 2011).

[39] *See* Reno & Lavery, National Academy of Social Insurance, *supra* note 36.

[40] Strengthen Social Security, *Highlights of 2010 Election Voters' Opinions About Social Security Based on Lake Research Partners Survey, 10/31-11/2* (2010), *available at* http://socialsecurity-works.org/wp-content/uploads/2011/06/poll.pdf (last visited July 7, 2011).

[41] National Academy of Social Insurance, *Economic Crisis Fuels Support for Social Security: Americans' Views on Social Security* (August 2009), *available at* http://www.nasi.org/research/2009/economic-crisis-fuels-support-social-security (last visited July 7, 2011).

Chairman JOHNSON. Thank you, ma'am.

Dr. Blahous, you are recognized.

STATEMENT OF CHARLES P. BLAHOUS, PH.D., RESEARCH FELLOW, HOOVER INSTITUTION

Mr. BLAHOUS. Thank you, Mr. Chairman, Mr. Ranking Member, and the subcommittee for the honor of testifying today. Owing to the time constraints, I am going to bypass most of the background information in my written testimony, and just offer the subcommittee nine suggested rules of thumb for you to consider as you contemplate changes in Social Security benefits.

The first is very simple. Act soon. Obviously, the balance of any benefit or tax changes is a very important value judgement. But whatever the balance chosen, we are going to be better off if that solution is enacted sooner. The longer that you delay action, the more any changes are going to be concentrated on a smaller number of birth cohorts, and that is going to increase adverse effects on vulnerable populations within those cohorts.

Second rule of thumb. On the threshold question of whether we should change the growth of benefits at all, my recommendation would be yes, simply because to do otherwise means that younger generations are going to face far higher Social Security tax burdens than any previous generation has tolerated. Program costs were about 11.5 percent of worker wages in 2008, before the Baby Boomers began to retire. And under the current benefit formula, that would rise to over 17 percent by the mid-2030s. And what would happen is we would be trying to pay benefits that are rising very dramatically, in per capita terms, relative to inflation.

Today, a typical medium-wage retiree gets a benefit of about $18,000 a year at the normal retirement age. The current formula is trying to pay the beneficiary of 2050 a benefit of about $29,000 a year, and that is after adjusting for inflation.

So, if we adjust the rate of growth now, benefits can still rise in real terms. They don't have to be cut from today's levels. But if we leave the current formula in place, I fear we run the risk of actual real future benefit declines, as voters rebel against the high tax rates required to sustain current payment schedules.

Third rule of thumb is simply that we need to recognize demographic realities. Our population is aging rapidly. Meanwhile, what has happened is that we have enacted various benefit increases over the years, and we have established early retirement. So now what is happening is people are retiring earlier, and claiming earlier than when FDR established the system. They are getting higher annual benefits, and they are living longer.

Something there has to give. We would actually have to raise both the early and normal retirement ages by at least three years, just to get back to the starting point, where the typical beneficiary was claiming at 65, let alone to adjust for longevity gains since the program's inception.

Fourth rule of thumb: phase in any changes that you want to make as rapidly as you can, to be fully effective before 2035. The vast majority of cost growth in the system will play out by 2035. That is when we hit the 17 percent cost rate. And then, after that, costs are relatively flat until they rise higher, only after the 2070s. So, any benefit changes that you postpone to occur only after 2035 are not going to do that much to address the looming tax burdens facing younger workers.

Fifth rule of thumb: repair the system's flawed work incentives. The current system is basically designed to drive seniors out of the workforce, which may have been an attractive policy in 1935. But in the 21st century, we have the opposite problem. We have future economic growth jeopardized by the withdrawal of millions of skilled Baby Boomers from the workforce. In my judgment, we should stiffen the penalty for early claims. We should increase the reward for delayed claims. We should perhaps offer a lump sum option to make the delayed retirement credit more attractive.

We should redesign the benefit formula. Right now, the way it currently works is that the longer you work, and the more your average earnings rise, the lower your incremental returns on your Social Security contributions. And I believe we should redesign that formula so that it delivers proportional additional benefits for every year of further work by seniors.

The sixth rule of thumb: protect the vulnerable by constraining benefit growth on the high-income end. Obviously, the faster the benefits grow on the high-income end, the less there is left over for vulnerable populations within a given level of tax revenue. I think it is financially and politically inefficient to have higher tax burdens driven, in large part, by benefit growth above and beyond inflation for upper income workers.

Seventh rule of thumb: maintain the contribution benefit link. Don't means test. I think there is an important conceptual distinction to be drawn between a more progressive benefit formula, which I favor, and a true means test, which I don't. The former requires no new administrative capabilities from SSA. It doesn't penalize individuals for the saving they do outside of Social Security, and it doesn't sever the vital link between contributions and benefits that distinguishes Social Security from welfare.

Eighth rule of thumb, maintain the link between retirement and disability benefits. The fact that the disability benefit formula is based on the retirement formula is, in my judgment, important. It limits gaming of the system, and it provides for a smooth transition once a disabled individual reaches retirement age.

And the ninth and final rule of thumb I offer for your consideration is just to avoid unnecessary complexity, if you can. It is important to remember not every part of the Social Security benefit formula can do everything, and you are going to have distributional goals. You are going to have goals for targeting benefits. But you cannot ask the retirement age to handle that for you. You cannot ask the CPI to handle that for you.

My recommendation would be just set the retirement age for the general case that reflects population aging, set CPI for your best measure of overall inflation, and do your benefit targeting through the basic benefit formula.

And, with that, I would be happy to answer any questions the subcommittee may have.

[The statement of Mr. Blahous follows:]

Statement of Charles P. Blahous

Research Fellow, Hoover Institution and Public Trustee for Social Security

Before the Subcommittee on Social Security

of the U.S. House of Representatives Committee on Ways and Means

July 8, 2011

Thank you, Chairman Johnson, Ranking Member Becerra, and all of the members of the subcommittee. It is an honor to appear before you today to discuss options for adjusting the growth of Social Security benefits. My written testimony will begin with some benefit basics before proceeding to general policy considerations, then to the pros and cons of specific options and finally to some subjective recommendations offered in the final section of this testimony entitled, "Suggested Rules of Thumb." Although I serve as a Research Fellow for the Hoover Institution and as a Public Trustee for Social Security, none of the opinions that I express in this testimony should be interpreted as representing the views of the Hoover Institution or of my fellow Social Security Trustees.

Basics of Social Security Benefits

The current retirement benefit calculation can be thought of simply as occurring in four steps. The first step is to credit each worker for his or her history of taxable wages. The system tracks the wages of each individual worker subject to the Social Security payroll tax each year. A formula is applied to adjust wage levels from earlier years into their wage-equivalents in more recent years. The worker's top 35 years of earnings are thus determined and averaged. This results in a single number representing average earnings over a worker's career.

Note that because each worker's lifetime earnings are consolidated into a single number, certain distinctions are lost: a high-wage earner with 20 years of work may look, at the end of this calculation, no different than a lower-wage earner with 35 years of work. This has inevitable implications for the level of precision with which protections for the poor can be targeted.

Also notable is that this method often produces "average earnings" figures that are lower than many casual observers expect. Many workers have "zero earnings" years (work interruptions) that bring down the career average. Moreover, any earnings above the taxable wage cap are not counted. By this method, then, fewer than 20% of workers have "average earnings" of $70,000 or above. Accordingly, a benefit change affecting workers with "average earnings" of $70,000 and up would actually affect *fewer* workers than if the $106,800 cap on taxable wages were raised (which would affect roughly 20% of all workers at some point during their careers).

The second step is to apply a progressive benefit formula, converting each worker's taxable wage history into a benefit. Perhaps the easiest way to think about this formula is that it operates somewhat analogously to our system of income tax brackets. There is a 90% bracket, a 32% bracket, and a 15% bracket. These brackets render the distribution of benefits progressive. The 90% bracket delivers high returns on a worker's first dollars of earnings, while the 15% bracket delivers much lower returns on a high-wage worker's last dollars of earnings.

Also like income tax brackets, the borders (known as "bend points") between the factors in the benefit formula are indexed to grow automatically each year. Unlike tax brackets, however, Social Security bend points grow with the Average Wage Index (AWI). Because wages nationally tend to grow faster than prices over time, this formula causes initial benefits to grow in real terms. That is to say, later retiree cohorts are provided benefits with greater purchasing power than are earlier ones. This contributes significantly to program cost growth.

The third step is to adjust the benefit for when it is claimed. If benefits are claimed at the Normal Retirement Age (NRA: now 66, rising in the future to 67), the full benefit is paid. If an individual claims earlier (the earliest eligibility age is 62), an actuarial reduction in the annual benefit is made because it is expected to be paid for more years. A Delayed Retirement Credit (DRC) also increases annual benefits (for up to three years) for benefit claims after the NRA.

The fourth step is to adjust benefits, after an individual begins to receive them, annually for price inflation. A Cost-of-Living-Adjustment (COLA) is provided each year based on annual growth in the Consumer Price Index (CPI-W).

The benefit formula just described pertains to benefits for a retired worker. Social Security also provides for a number of other benefits as well, including disability benefits, spousal benefits, and benefits for widows, widowers and survivor children. Although there are differences in the methods of computing benefits for these respective populations, they all hinge in some fashion on the basic retirement benefit formula. Thus, unless provision is made to the contrary, changes to the basic benefit formula will have spillover effects on other forms of Social Security benefits.

Summary of Social Security Benefit Computation Steps

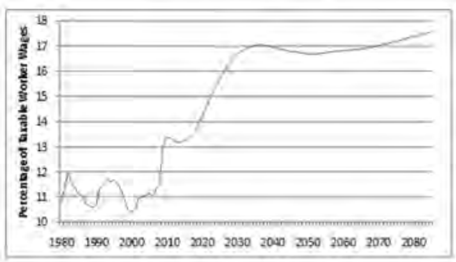
1) Compute the worker's average taxable wages;
2) Convert this wage history into a benefit amount using a progressive formula;
3) Adjust the initial benefit level for age of claim (lower if claimed before Normal Retirement Age, higher if claimed later);
4) After benefit payments begin, annually adjust via a COLA based on CPI growth.

Why Consider Slowing the Rate of Social Security Benefit Growth?

Whether to slow the rate of growth in Social Security benefits is a critical societal value judgment on which informed, well-intentioned individuals can and do disagree. Below I will describe basic elements of the case for slowing the rate of benefit growth.

A critical part of this case is that absent a slowing of benefit growth, younger workers will be subject to Social Security tax burdens far greater than tolerated by any previous generation. This can be seen on the following graph, which shows projected annual Social Security costs as a percentage of the program's tax base. Under current schedules, cost rates would rise rapidly from roughly 11 and a half percent -- their level in 2008 just before the Baby Boomers began to retire -- to more than 17 percent by the mid-2030s. This would mean that the total cost of paying Social Security benefits would exceed one out of every six taxable dollars that workers earn.

Figure 1: Social Security Costs as a % of Workers' Taxable Wages
(Past and 2011 Trustees' Projections)



The following equation may be helpful in understanding why Social Security costs are projected to grow so dramatically:

$$\frac{\text{(Per-capita benefits as a \% of worker wages)}}{\text{(Ratio of workers to beneficiaries)}} = \text{(Worker cost burden, as a \% of wages)}$$

As noted earlier, the current benefit formula attempts to hold constant the numerator on the left side of this equation, by indexing initial benefits to rise fully as fast as wages (AWI).

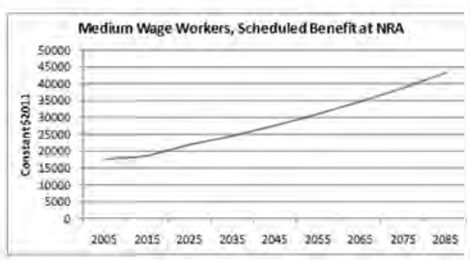
Consequently, if the ratio of workers to beneficiaries sharply declines – which is happening as the Baby Boomers retire -- worker cost burdens must rise substantially. In effect, the current benefit formula implements a value judgment that as we live longer, healthier lives, we should face markedly higher tax burdens when working so that we can be paid retirement benefits, for a longer period of time, that keep pace with general wage increases.

This is not the only value judgment that could be made. An opposing value judgment would be that longer, healthier lives should instead translate into longer periods of taxpaying productivity, enabling a *reduction* in annual tax burdens on workers and employers. Or alternatively, gains in longevity and health could be proportionally split between taxpayers and beneficiaries. Concern about the value judgment inherent in the current formula, specifically the rising tax burdens that would result under it, was expressed by a consultant panel hired by the Congressional Research Service when Congress was considering its adoption in the 1970s:

> This panel gravely doubts the fairness and wisdom of now promising benefits at such a level that we must commit our sons and daughters to a higher tax rate than we ourselves are willing to pay.[1]

A further element of the case for restraining benefit growth is that these substantially higher tax burdens would be imposed to greatly *increase* the future purchasing power of beneficiaries. If instead we act soon to slow benefit growth, benefits needn't be reduced from current levels.

Figure 2: Growth of Initial Benefit Payments Relative to Inflation



[1] www.ssa.gov/history/reports/hsiao/hsiaoChapter1.PDF, p. 8.

With our nation's operative demographics, a benefit schedule that grows with wages cannot be sustainably afforded within a stable tax rate. Initial benefit payments, however, *can* continue to grow more rapidly than inflation, provided that legislative action is taken relatively soon. This is why many experts urge prompt action to recalibrate the growth of the Social Security benefit formula, to prevent undesirable effects such as a marked growth in tax burdens or the risk of future real benefit declines.

There is of course a case for the current benefit formula, which is based on the concept of *replacement rates*. Simplifying, a "replacement rate" is the ratio of post-retirement income to pre-retirement earnings, and is often an important basis for retirement planning. The current formula attempts to maintain constant "replacement rates" for similarly situated workers retiring at the NRA over time. There are many reasons, however, why this approach may not be the most appropriate basis for Social Security benefits.

One is that maintaining constant replacement rates does not produce consistent net treatment across generations. With our demographics, as noted, maintaining constant replacement rates subjects later generations to higher cost rates. As a result, later generations would -- even under wage-indexing -- receive a declining percentage of their contributions back as retirement income.

Another problem is that each generation's Social Security benefits are paid from the contributions of younger generations without creating a net addition to the pool of saving available to finance total retirement income. Accordingly, rising cost rates under wage-indexing result in less income being available to later generations to build retirement saving *outside* of Social Security. To maintain constant replacement rates for *total* retirement income requires attention instead to the amount of national saving dedicated to financing retirement benefits. Such saving is more likely to be induced under a policy in which income transfers under Social Security grow more slowly than under current law.

Specific Benefit Options

There are a number of possible ways to establish a more affordable growth rate for Social Security benefits. Among them:

Eligibility age changes. In 2003, the Congressional Budget Office[2] estimated that 55% of projected Social Security cost growth was attributable to population aging, the remaining 45% to

[2] "The Future Growth of Social Security," http://www.cbo.gov/ftpdocs/43xx/doc4380/07-01-SocSecAging.pdf. The calculation references growth through 2075; the percentage attributable to aging is higher through 2035.

the growth in per-capita benefits. Because the decline in the ratio of workers to beneficiaries is the single biggest contributor to Social Security's cost growth, adjusting eligibility ages addresses the financing shortfall's most direct cause. Slowing the growth in the number of years over which individuals receive benefits is further attractive to many reformers because doing so reduces financial pressure to raise taxes or to lower annual benefit levels.

For a worker with a given wage history, a number of factors combine to determine the benefit she can receive at a given age, including: the NRA (now 66, later rising to 67), the Early Eligibility Age (EEA; now 62), the actuarial adjustments for early/delayed retirement, and the basic benefit formula itself. Various benefit increases enacted over the years, as well as the establishment of the early retirement option, mean that workers now can and do claim retirement benefits earlier than when Social Security was first established.

Even if both the EEA and the NRA rose by a further three years beyond current law (to 65/70, respectively), retirees could still claim relatively higher benefits at age 65 than they could at Social Security's inception. Few existing reform proposals raise eligibility ages even this much, meaning that they do not truly begin to adjust for longevity gains since then. Therefore, despite misperceptions to the contrary, most proposals now on the table would not oblige workers to delay retirement relative to FDR's original vision.

<u>Early/delayed benefits:</u> In addition to changing the eligibility ages themselves, many proposals would increase the actuarial reduction factor (ARF) for early benefit claims as well as the delayed retirement credit (DRC) for later claims. The current ARF and DRC are calculated to hold constant one's expected benefits if one lives an average lifetime, i.e.: providing lower annual benefits for earlier claims and higher benefits for later claims. The individual who claims the DRC, however, will likely have worked longer and paid more in payroll taxes than the person who accepts the ARF. Because the ARF/DRC hold total expected benefits constant, therefore, someone who continues to pay payroll taxes often receives no additional benefits for doing so. Increasing the ARF/DRC could increase the incremental benefits returned by the system for each additional year of taxpaying work while also improving system finances. Offering the DRC with a lump sum option might also make delayed claims more attractive to some workers.

<u>Slowing benefit growth for higher-income workers</u>: Many proposals improve program finances by slowing benefit growth for higher-income workers. The logic of this is straightforward: the scheduled rate of growth cannot be afforded for everyone without a substantial increase in taxes. Meanwhile, there is a bipartisan desire to protect benefit growth for low-income workers as much as possible. Heeding these two imperatives necessitates slower benefit growth on the high-income end. Unfortunately, Social Security repairs have already been delayed to the point where, if a large tax increase is to be avoided, the rate of benefit growth must be changed for the clear majority of workers. If reforms are still further delayed, more low-income people will be adversely affected. Fortunately, benefits need not yet decline relative to inflation for anyone.

There are two basic approaches to slowing the rate of benefit growth for higher-income workers. The first family of plans relies on variations of "progressive indexing." In these plans, benefits on the highest end would grow with price inflation, while on the lower end (often the bottom 30 percent) they would grow more rapidly with wage growth. Everyone else would be somewhere in between. The second family of plans by contrast doesn't change the indexing method by which benefits grow. These plans surgically alter the numbers in the benefit formula so as to target benefit changes on the upper-income end. While the first approach offers a clearer growth-rate rationale, the second allows reformers to more precisely target the desired amount and timing of savings, as well as the distribution of changes among worker income levels.

Work incentives; AIME reform: One of the larger problems with the current benefit formula is the way that it handles two competing objectives: on the one hand to produce a single number for one's lifetime wages, and on the other to progressively distribute benefits. The combined effects can produce inequities and undesirable incentives. The longer one works and one's "average earnings" rises, the worse one's returns on taxes paid. These adverse effects are particularly pronounced once one reaches the maximum of 35 earnings years. Research by Andrew Biggs of AEI has shown that the rate of benefit return on working seniors' payroll taxes is nearly a negative 50 percent. Put another way, individuals who delay retirement receive only a few pennies in extra benefits for each dollar of extra taxes they pay into the program. Also, because the benefit formula cannot distinguish a steady low-wage worker from an intermittent high-wage worker, returns can be the same for each, undercutting the efficiency of anti-poverty protections. This can cause inequities with respect to populations moving in and out of Social Security coverage, such as state/local workers and immigrants.

One possible reform is to apply the progressive benefit formula to *each* year of wages rather than to one's lifetime average. This would strengthen work incentives, especially for seniors contemplating retirement. This would reap dividends not only for Social Security but for the broader budget and for the economy as a whole. It would also target a higher fraction of system resources on steady, lower-wage earners, reducing benefit growth for intermittent workers.

CPI/COLA Reform: Many have suggested reforming the Consumer Price Index used to calculate annual COLAs, basing them instead upon the chained C-CPI-U. This is projected to reduce the growth in future COLAs by an average of 0.3 percentage points per year. The basis of this recommendation is that the current CPI-W (and CPI-U) likely overstate price inflation by failing to adequately incorporate purchasing substitutions as such inflation occurs.

Because the objective of the annual COLA calculation is to adjust for inflation it seems a straightforward reform to use the most accurate measure of inflation available, whatever it might be. In the Social Security context, however, switching to C-CPI-U is not without controversy.

Some have suggested shifting instead to CPI-E, an experimental index used to measure seniors' buying patterns. This change would (based on historical experience) increase Social Security costs. There are a number of issues with the CPI-E, which like CPI-U and CPI-W fails to fully account for purchase substitutions. This flaw is especially problematic for CPI-E because health care purchases are both more prevalent among the senior population and are a prime area for such substitutions. Many are rightly concerned about the adequacy of benefits among the oldest seniors, but benefit distributional goals are probably better addressed via changes to the benefit formula rather than via a formulaic, compounding overstatement of general inflation.

Non-working spousal benefits: The current non-working spouse benefit is 50% of the household primary worker's benefit. Many have expressed concern that the current design of the benefit creates both work disincentives and distributional inequities. A spouse of a high-wage earner can for example receive, despite having made no payroll tax contributions, a higher benefit than received by a minimum-wage earner based on a full career paying Social Security taxes. Some have therefore suggested capping or slowing the growth of the non-working spouse benefit.

Minimum benefits: Some have also suggested increasing the benefits received by lower-income beneficiaries to increase Social Security's protections against poverty. Under current law these protections will already strengthen over time due to the wage-indexation of the Social Security benefit formula. Reformers who wish to further strengthen benefits for the poor sometimes suggest increasing the formula's "bend point factors" on the low end, or establishing new provisions to guarantee a minimum benefit of 100% or more of the poverty level, the precise percentage often being a function of total years worked.

I share the goal of increasing these protections against poverty and have worked to develop many such provisions. One caveat I would sound is that Social Security's labor disincentives are already substantial and that they could be significantly further worsened by collapsing the benefits of higher-wage and lower-wage workers too closely together. I have found as a general rule that a "minimum benefit" best meets the dual goals of protecting work incentives and of reaching those in need if it phases upward as an individual's total number of work years rises from about 25-40. Under this approach, the SSI program would need to remain a critical protection against old-age poverty for individuals with few years of taxpaying earnings.

Suggested Rules of Thumb

To assist in condensing this compendium of technical information into more useful advice, I offer the following subjective rules of thumb.

1) *Act soon.* The balance of benefit and tax changes in balancing Social Security's books is a critical societal value judgment. But regardless of the balance chosen, the earlier the solution is enacted, the more equitable it can be. The longer that action is delayed, the more that changes will be concentrated upon a smaller number of birth cohorts, increasing adverse effects on vulnerable populations within those cohorts.

2) *Yes, slow the growth of benefits.* As to the threshold question of whether benefit growth should be slowed at all, my subjective recommendation would be "yes." To do otherwise would subject younger generations to tax burdens far higher than previous generations have ever tolerated. In no sense has the current benefit formula been "paid for" by workers or anyone else, as it well exceeds the program's total tax revenue (see Figure 1). If the rate of growth is adjusted now, real benefits can continue to rise (see Figure 2). If instead the current formula is left in place, there is the real risk of future benefit *declines* if voters rebel against the taxes required to sustain current-law payment schedules.

3) *Recognize demographic realities.* America's population is aging rapidly as the Baby Boomers leave the ranks of the workforce and enter the retirement rolls. Accordingly, something has to give. Either taxes will rise markedly, annual benefits be significantly adjusted, or the duration of benefit payments must grow more slowly. We are currently in a situation where a typical beneficiary claims benefits three years earlier than under FDR's vision but lives six years longer. We would need to raise Social Security's early and normal retirement ages substantially (i.e., by at least three years) just to get back to the starting point, let alone to adjust for longevity gains since the program's inception.

4) *Phase in changes as rapidly as palatable before 2035.* The vast majority of projected program cost growth will have taken place under current law by 2035. Annual costs will rise dramatically to 17 percent of worker wages by then, a level they won't permanently exceed until the 2070s. Benefit changes that occur only after 2035 will thus do very little to address the looming tax burdens facing younger workers.

5) *Repair flawed work incentives.* The current system is practically designed to drive seniors and secondary earners out of the ranks of those seeking employment, as this was deemed desirable in 1935. We now have the opposite need, as future economic growth is jeopardized by the permanent withdrawal of millions of skilled Baby Boomers from the workforce. The penalty for early retirement benefit claims should be increased; the reward for delayed claims also increased (and perhaps a lump sum option offered to make it more attractive). The benefit formula should be redesigned to offer robust additional benefits for *each* year of further work by seniors, rather than offering worse returns with each year of work as does the current formula.

6) *Protect the vulnerable by constraining benefit growth for higher-income workers.* The faster that benefits grow on the higher-income end, the less there will be left over for those most at risk of old-age poverty, at least within a given level of tax revenue. It is both financially and politically inefficient to have higher tax burdens driven in large part by benefit growth above and beyond inflation for upper-income workers. Take care, however, when making the benefit formula more progressive so as not to further undermine labor participation incentives.

7) *Maintain the contribution-benefit link; don't means-test.* There is an important conceptual distinction between a more progressive benefit formula and a true means-test. The former requires no new administrative capabilities of the Social Security Administration and it does not penalize individuals for the retirement saving they do outside of Social Security. Also, do not sever the vital link between contributions and benefits that distinguishes Social Security from welfare. Continue to credit all worker contributions toward benefits, and resist the temptation to bail out the program with other unrelated revenues such as estate taxes, "legacy surcharges," or other general revenues.

8) *Maintain the link between retirement/disability benefits.* There is sometimes a temptation to decouple the retirement and disability benefit formulas, to hold the disabled harmless from any changes affecting retirees. The fact that the disability benefit formula is based on the retirement formula, however, is important to prevent "gaming" of the system and to provide for a smooth transition once a disabled individual reaches retirement age.

9) *Avoid unnecessary complexity.* It is important to remember that not every part of the Social Security benefit system can do everything. There is sometimes a temptation to resist a change in the eligibility age, in the CPI, or in another part of Social Security because of what is perceived as an undesirable distributional effect. I recommend instead that distributional goals be pursued through the benefit formula rather than asking the retirement age or the CPI to do that work. Don't set up multiple eligibility ages for different professions or income levels, for example, in an effort to protect the physically incapacitated. Deal with those issues through the disability program and just have the retirement age do what it's intended to do: establish the definition of "old age" for the general case. Don't choose the CPI index, for another example, based on desired benefit levels for 85-year-olds. Instead, just choose the best measure of economy-wide inflation. If we want benefits for 85-year-olds to be higher, we can deal with that separately in the benefit formula. In pursuing progressivity, we should focus on the *total* progressivity of the system rather than asking *every* subcomponent of the system to be progressive, from the payroll tax to the retirement age to the CPI. We can make the system as progressive as desired through the benefit formula, without creating unnecessary confusion and complexity in these other parts of Social Security. Social Security has flaws and faces many challenges, but let us retain the virtue wherein certain parts of it are still relatively easy for Americans to understand and to plan around.

Conclusion

I trust that this information is useful and I would be pleased to answer any questions that the subcommittee may have.

Chairman JOHNSON. Thank you. We can't tell people to stop getting older.

[Laughter.]

Chairman JOHNSON. Thank you.

Ms. Bovbjerg, you may proceed.

STATEMENT OF BARBARA BOVBJERG, PH.D., DIRECTOR FOR EDUCATION, WORKFORCE, AND INCOME SECURITY, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Ms. BOVBJERG. Thank you, Mr. Chairman, Mr. Becerra, Members of the Committee. Thank you for inviting me today.

You have heard others speak about ways to stabilize Social Security's financial future, but you have asked me to address one of the most important vehicles for explaining Social Security programs, and that is the individualized Social Security statement.

The statement is the Federal Government's main document for communicating with more than 150 million workers about their Social Security benefits. As such, it also serves as a key financial literacy tool to educate the public about Social Security, and its provision is mandated in law.

Should changes to the Social Security programs take place, the statement would take on added importance as a means to explain them. My testimony today will address both the current status of the statement and SSA's plans to improve its usefulness. My remarks are based on interviews we have conducted in the last month with SSA officials, documents they have provided, and our prior work on the statement's understandability.

With regard to status, the statement is not currently being distributed. SSA used to mail the statement to virtually all American workers annually, until a few months ago when, for budgetary reasons, the Agency chose to suspend the mailings. SSA is, instead, preparing to make the statement available online, and has begun developing a new web portal for this purpose.

But both the portal and the online version of the statement are currently in the initial phases of development, and once developed, will need to be fully tested. As a result, SSA officials are uncertain when the statement will once again be available to the public, although they are hoping for early next calendar year.

And, in the meantime, copies of the statement are not available. And SSA staff and the website instead direct requesters to SSA's retirement estimator—we have a little picture of that web page on the front of our testimony—which, although useful, does not fill the same function as the statement.

SSA's focus on getting the statement online and securing the personal information it contains is really important. But these elements of the statement should not be the only concerns of the Agency.

For example, SSA will need plans in place for publicizing the availability of the statement online. An internal SSA working group is currently considering options for the public roll-out of the online statement, but they have not yet developed a plan for carrying it out.

They will also need to consider how best to provide this information to people without Internet access. Even the relatively few computers available in selected field offices will not necessarily permit access to the online statement itself if individuals without computers will even know to go there to look for it. And while Agency officials have said they would also like to make the online statement available in Spanish, the initial version will be English only.

Let me turn now to improving the usefulness of the statement. SSA officials have told us that they believe the electronic format has advantages for individuals, including immediate access when it is needed, and not simply when it arrives in the mail. The officials also note that, with an electronic statement, they can provide links to related documents, and thereby provide complete information, but minimize the lengthy description in the statement itself.

SSA has also told us they plan to draw an industry best practices for screen design and layout, to make the system more user-friendly.

And although they are planning such changes, the first publicly-released version of the online statement some time next year will be nearly identical to the current print version. This means sticking with the limited graphics and layout that we at GAO and the Social Security Advisory Board felt should have been modernized years ago.

Officials told us they also did not plan to change the statement's content, because so much of it is statutorily required. However, we noted in our 2005 report that the statement contained descriptions and concepts that focus group participants found confusing. This is the same content that SSA plans to roll out online.

SSA's own financial literacy initiative offers detailed ideas for improving the statement's usefulness, but it is unclear what role staff from this office have played in the design or content of the online statement, thus far.

In conclusion, SSA's decision to suspend statement mailings this year may negatively affect millions of Americans now, but could ultimately have the positive result of modernizing delivery of this important information. Yet, because this decision to suspend was made so abruptly, SSA faces pressure to take quick action to restore the statement's availability, which means there is little or no time to redesign the statement to take advantage of the new electronic platform.

But that is not even our greatest concern. The lack of preparation for providing all American workers, including those without computer resources and those without English proficiency, with an understandable version of the statement risks leaving a significant portion of our population without information about Social Security at a time when changes to the programs could make such information more crucial than ever.

We are, therefore, recommending that the SSA commissioner take steps immediately to address these access issues, and thus assure that the statement remains an important tool for communicating with all workers.

And that concludes my statement.

[The statement of Ms. Bovbjerg follows:]

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Social Security, Committee on Ways and Means, House of Representatives

For Release on Delivery
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SOCIAL SECURITY STATEMENTS

Observations on SSA's Plans for the Social Security Statement

Statement of Barbara D. Bovbjerg, Managing Director
Education, Workforce, and Income Security

U.S. Government Accountability Office
GAO 90 YEARS 1921-2011
ACCOUNTABILITY ★ INTEGRITY ★ RELIABILITY

GAO-11-787T

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Accountability * Integrity * Reliability

Highlights

Highlights of GAO-11-787T, a testimony before the Subcommittee on Social Security, Committee on Ways and Means, House of Representatives

July 8, 2011

SOCIAL SECURITY STATEMENTS

Observations on SSA's Plans for the Social Security Statement

Why GAO Did This Study

The Social Security Statement (the statement) is the federal government's main document for communicating with more than 150 million workers about their Social Security benefits. Provided annually, it serves as a key financial literacy tool that can educate the public about Social Security Administration (SSA) program benefits, aid in financial planning, and ensure that workers' earnings records are complete and accurate. The statement is also a key tool for communicating with the public about the long-term financial challenges the Social Security system faces. However, due to budget constraints, SSA chose to suspend mailings of the statement in March 2011. GAO examined (1) the current status of the statement and (2) ways SSA plans to improve the usefulness of the statement. To address these issues, GAO interviewed SSA officials and reviewed agency documents and our prior work on the statement's understandability. GAO also provided a draft of this testimony to SSA for review and comment.

What GAO Recommends

As SSA considers moving forward with an online statement, we recommend that the Commissioner of SSA ensure access to the statement for all workers, including those without Internet access or English proficiency. In comments, SSA noted that paper statements will continue to be available, on request, in English and Spanish.

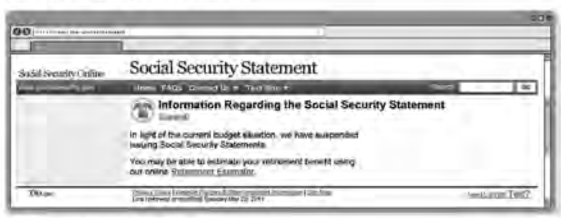
View GAO-11-787T or key components. For more information, contact Barbara D. Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

What GAO Found

SSA is currently preparing to make the statement available online; however, the agency does not yet know the timeline for implementation and has not finalized its plans for publicizing its availability or addressing access issues. SSA is developing a new Web portal to allow individuals to access personalized SSA information online. However, because the portal and online statement are currently in the initial development phases and thus have not yet been fully tested, agency officials do not know when the online statement will be available to the public. In addition, SSA does not yet have plans in place for publicizing the online statement or ensuring access for individuals without Internet access or English proficiency. Finally, because the agency does not have a total cost estimate for the online statement project, and it is unclear how many workers will request mailed statements after this information is made available online, it is unknown if SSA will realize the budget savings it expects from suspending statement mailings, at least in the short-term.

Although SSA expects to improve the usefulness of the statement for some by moving it to an online format, the agency is taking only limited steps to improve the statement's overall content and design. A key agency official said that the first publicly released version of the online statement will be as similar to the mailed paper statement as possible, and SSA has no plans to update the paper statement's content or design at this time. However, over the years, GAO and others have reported that the design of the statement could be modified and certain information contained in the statement could be clarified to improve the statement's usefulness for recipients. For example, focus group participants in our prior study suggested that using graphics to replace text would make information more easily understandable. Furthermore, while SSA's own financial literacy initiative also provides detailed information on ways to improve the statement's usefulness in helping people plan for retirement, the extent to which staff from SSA's office responsible for this initiative have been consulted on the design or content of the online statement is unclear.

SSA's Current Message on the Statement



Source: http://www.ssa.gov/mystatement.

Mr. Chairman, Ranking Member Becerra, and Members of the Subcommittee:

I am pleased to be here today to discuss Social Security, particularly the Social Security Administration's (SSA) developing plans for the Social Security Statement (the statement). Because the Social Security system is currently facing long-term financial challenges that may necessitate reform, communicating these changes to the public and ensuring that individuals understand the implications of these changes will be important. The statement is the federal government's main document for communicating with more than 150 million workers about their Social Security benefits. As required by law, since fiscal year 2000, SSA has provided annual statements with benefits and earnings information to virtually all American workers.[1] SSA mailed these statements up until a few months ago, when the agency chose to suspend mailings because of its budget constraints. Because the statement has been mailed annually to so many homes and provides important information about retirement benefits, it is a key financial literacy tool that can educate the public about SSA program benefits, aid in financial planning, and ensure that workers' earnings records are complete and accurate. In light of potential reforms, the statement may take on added importance as a tool for communicating with the public about potential changes in Social Security. During the years when SSA first began providing the statement to workers, SSA made significant revisions to improve the statement's clarity and understandability, based in part on our work. As SSA considers the future of the statement, it is crucial that the agency remain committed to these goals to help prepare Americans for long-term financial security.

My testimony today will focus on SSA's current plans for the statement. Specifically, I will discuss the current status of the statement and ways SSA plans to improve its usefulness. My statement is based on interviews with SSA officials and documents obtained from the agency in June 2011, as well as our prior work assessing the statement's understandability. Our work was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We

[1] 42 U.S.C. § 1320b-13(c)(2).

believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Almost all American workers are covered under Social Security, and in 2011, 55 million Americans are receiving Social Security benefits. The statement is a key tool for communicating with the public about these benefits and the long-term financial challenges the system faces. At present, the cost of Social Security benefits is projected to exceed sources of funding, and the program is projected to be unable to pay a portion of scheduled benefits by 2036.[2] The shortfall stems primarily from the fact that people are living longer and labor force growth has slowed. In 2010, for the first time since 1983, the Social Security trust funds began paying out more in benefits than they received through payroll tax revenue, although trust fund interest income more than covers the difference, according to the 2011 report of the Social Security trust funds' Board of Trustees.[3] The projected long-term insolvency of the Social Security program necessitates system reform to restore its long-term stability and assure its sustainability. Accomplishing these goals for the long-term requires that either Social Security receive additional income (revenue increases), reduce costs (benefit reductions), or undertake some combination of the two. A wide variety of options for reform have been proposed. Some of the reform options focus on restoring long-term stability; however, a few aim to enhance benefits for specific groups, such as widows and low-earners who are especially at risk for poverty.

[2]These estimates for the combined trust funds are based on results using intermediate assumptions in the 2011 report of the Social Security trust funds' Board of Trustees. The trustees provide a variety of additional information in acknowledgment of the uncertainty of long-range projections. The Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, *The 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (Washington, D.C., May 13, 2011).

[3]SSA estimates that over the next several years, and over the long term, trust fund income, excluding trust fund interest, is projected to be less than trust fund expenses, absent any changes. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 temporarily reduced employees' share of the Federal Insurance Contributions Act tax from 6.2 percent to 4.2 percent of covered wages for calendar year 2011. However, the act directs that an amount equal to 2 percent of covered wages be transferred from the Department of the Treasury to the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds. Pub. L. No. 111-312, § 601, 124 Stat. 3296, 3309-10.

Our prior work has noted that reform proposals should be evaluated as packages that strike a balance among the individual elements of a proposal and the interactions among those elements, and that the overall evaluation of any particular reform proposal depends on the weight individual policy makers place on various criteria. Our framework for evaluating reform proposals considers not only solvency but other aspects of the program as well. Specifically, the framework uses three basic criteria:

- the extent to which a proposal achieves long-term stability and how it would affect the economy, including overall savings rates, and the federal budget;
- the relative balance struck between the goals of individual equity (rates of return on individual contributions) and income adequacy (level and certainty of benefits); and
- how readily a proposal could be implemented, administered, and explained to the public.[4]

If reform is enacted, educating the public about program changes and how they will affect benefits will likely be a high priority for SSA, and the statement is likely to be one of the agency's key mechanisms for accomplishing this goal.

The Social Security Act requires SSA to provide annual statements with benefits and earnings information to individuals age 25 and older who have a Social Security number and wages or net earnings from self-employment, or whose pattern of earnings indicate a likelihood of noncovered employment.[5] The law requires each statement to contain the following:

- an estimate of the potential monthly Social Security retirement, disability, survivor, and auxiliary benefits and a description of the benefits under Medicare;[6]

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[4]GAO, *Social Security: Criteria for Evaluating Social Security Reform Proposals*, GAO/T-HEHS-99-94 (Washington, D.C.: Mar. 25, 1999).

[5]42 U.S.C. § 1320b-13(a)(3) and (c)(2).

[6]The law requires that only the statements sent to people age 50 and older contain actual benefit estimates, but SSA provides benefit estimates regardless of age.

- the amount of wages paid to the employee and income from self-employment;
- an estimate of the individual's aggregate contributions paid to Social Security, including employer contributions;
- an estimate of the individual's aggregate contributions paid to Medicare, including employer contributions; and
- for individuals with noncovered employment, an explanation of the potential effects of the Windfall Elimination Provision and the Government Pension Offset on their monthly Social Security benefits.[7]

The requirement to provide the annual statements was phased in beginning in fiscal year 1995, when SSA was required to provide the statement—then named the Personal Earnings and Benefit Estimate Statement (PEBES)—to eligible workers who had attained the age of 60 by October 1, 1994, who were not receiving Social Security benefits and for whom a current mailing address could be determined.[8] Starting in fiscal year 2000, SSA was required to provide the annual statement—now called the Social Security Statement—to eligible workers age 25 and older.[9] These statements generally have been provided about 3 months before the worker's birthday. In addition, since fiscal year 1990, eligible workers have had the option of requesting a copy of the statement from SSA at any time.[10]

Between 1995, when SSA began providing this information to workers annually, and March 2011, when the agency suspended this effort due to budgetary concerns, SSA has mailed the statement to workers by using addresses on file with the Internal Revenue Service. In addition, between March and April 1997, SSA permitted online dissemination of the statement in an attempt to respond to customer information needs and move toward electronic service delivery. However, the brief effort was suspended after public outcry amid concerns about the privacy of

[7]42 U.S.C. § 1320b-13(a)(2). Because some public employees do not pay Social Security taxes on their government earnings but may be eligible for benefits based on other covered earnings, these two provisions are in place to take their noncovered employment into account and reduce their Social Security benefits.

[8]42 U.S.C. § 1320b-13(c)(1).

[9]42 U.S.C. § 1320b-13(c)(2).

[10]42 U.S.C. § 1320b-13(a)(1).

sensitive information on the Internet. Indeed, we have identified federal information security as a governmentwide high-risk area[11] and emphasized that ineffective information security controls can result in significant risks, including inappropriate access to sensitive information, such as personal information, and the undermining of agency missions due to embarrassing incidents that diminish public confidence in government.

The current statement has evolved over the years, partly in response to our recommended changes. The initial PEBES was a six-page document and contained information such as the worker's earnings record, benefits estimates, and a question-and-answer section about Social Security. However, in a previous report, we found that PEBES did not clearly communicate the complex information that workers needed to understand SSA's programs and benefits.[12] In response, SSA made significant changes to the format and presentation of the PEBES and began mailing a four-page Social Security Statement to the public in October 1999. While the newer statement was shorter, better organized, and easier to read, our follow-up review in 2000 identified some remaining areas of concern, including clarity of the statement's purpose and explanations of benefits.[13] In our 2005 review of the statement's understandability, we again found weaknesses in the statement's design and recommended that SSA develop a plan for regularly evaluating and revising the statement.[14] In 2006, SSA implemented changes to the content of the statement as a result of new requirements included in the Social Security Protection Act of 2004.[15] These changes included adding a description of the Windfall Elimination Provision and the Government Pension Offset of

[11]See, for example, GAO, *High-Risk Series: An Overview*, GAO/HR-97-1 (Washington, D.C.: Feb. 1, 1997); GAO, High-Risk Series: Information Management and Technology, GAO/HR-97-9 (Washington, D.C.: Feb. 1, 1997); and, GAO, *High-Risk Series: An Update*, GAO-11-278 (Washington, D.C.: Feb. 16, 2011).

[12]GAO, *SSA Benefit Statements: Well Received by the Public but Difficult to Comprehend*, GAO/HEHS-97-19 (Washington, D.C.: Dec. 5, 1996).

[13]GAO, *Social Security: Providing Useful Information to the Public*, GAO/T-HEHS-00-101 (Washington, D.C.: Apr. 11, 2000).

[14]GAO, *Social Security Statements: Social Security Administration Should Better Evaluate Whether Workers Understand Their Statements*, GAO-05-192 (Washington, D.C.: Apr. 1, 2005).

[15]Pub. L. No. 108-203, § 419, 118 Stat. 493, 533-34.

the Social Security Act. However, at that time and since, SSA has not made some of the changes to the statement we recommended in 2005, such as using graphics to aid readers in quickly comprehending information.[16]

Over time, SSA also began including inserts for specific age groups with the statement. For example, in October 2000, the agency began sending a "Thinking of retiring?" insert to workers age 55 and older. Because SSA considers the statement to be one of the three key elements of the agency's financial literacy initiative, "Encourage Saving,"[17] this insert was updated in 2008 to improve and clarify benefits information provided to this age group and a new insert was created to provide age-appropriate benefits information to younger workers. Since February 2009, SSA has sent "What young workers should know about Social Security and saving" with the statement to workers age 25 to 35.

SSA is Preparing to Make the Statement Available Online

Since SSA suspended mailings of the statement in March 2011, the agency has been assessing the feasibility of making the statement available online. Based on the Commissioner of SSA's earlier testimony to Congress, as well as our interviews with officials from various SSA offices, SSA is currently considering making the statement available online for all eligible individuals and resuming mailings of the statement to eligible individuals age 60 and older who have not yet begun claiming benefits. Further, when mailings resume, SSA expects to allow anyone to request the paper statement, including those younger than 25.[18] At best, officials said the provision of the statement, both online and through the mail, may be resumed early in calendar year 2012, though they are currently unsure of the timeline. Although the Commissioner has not yet announced a final decision on how SSA will proceed with the provision of the statement, SSA officials expect he will make a final decision this summer. In the interim, copies of the statement are not available from

[16]See appendix I for a copy of the current statement.

[17]Realizing SSA's unique position to educate the public about retirement and encourage savings, SSA's 2008–2013 Strategic Plan included a new Encourage Saving initiative.

[18]SSA is required to provide annual and requested statements to eligible workers age 25 and older. Currently, SSA does not provide statements to younger workers.

SSA,[19] and SSA is instead directing individuals to the agency's online Retirement Estimator to estimate their future benefits.[20] However, because the estimator does not provide individuals with their earnings records or personalized information on other SSA benefits, such as those for disability, certain statement information is currently unavailable.

Although SSA's first attempt to make the statement available online in 1997 was short-lived due to privacy concerns, SSA may now be better positioned to move forward with this approach, though it is unknown when the agency will be fully ready. SSA is developing a new electronic authentication system[21] and a "MySocialSecurity" Web page to allow individuals to access personalized SSA information online. Officials report that both the authentication system and the "MySocialSecurity" Web page have already undergone initial testing to assess their feasibility and public opinion about such an approach. While the agency had not determined what information would initially be made available through this portal, when the Commissioner suspended mailings of the statement in March of this year, SSA decided that the statement would be the top priority. According to officials, both the authentication system and the statement page for "MySocialSecurity" are currently in the initial development phase, as staff build the prototypes. Once the prototypes are completed, SSA will conduct additional testing both internally and with the public, on an iterative basis, until the agency determines that both the authentication system and the statement page on "MySocialSecurity" provide sufficient safeguards and are user-friendly. Recently, officials conducted a risk assessment of the information contained in the statement to determine

[19]Because the statement is generally sent to eligible individuals about 3 months before their birthdays, workers with birthdays through June 2011 should have received mailed statements. However, because SSA does not anticipate resuming provision of the statement until early calendar year 2012, it is expected that SSA will not provide a large portion of the population with a statement in 2011.

[20]The Retirement Estimator is available at www.ssa.gov/estimator/, last accessed July 5, 2011.

[21]Authentication is defined as the process of confirming an asserted identity with a specified or understood level of confidence. Electronic authentication (E-authentication) is the process of establishing confidence in user identities electronically presented to an information system.

that the authentication system has the appropriate safeguards in place.[20] SSA officials said that testing of the online statement page will begin in August, but they could not provide a date for when the authentication system testing will begin. Because officials do not know how long the testing phase will last, they could not provide a date for when the statement will be available to the public online.

Although officials told us that they plan to fully assess the portal's safeguards before moving ahead with the online statement, SSA's Inspector General recently expressed concerns about the agency's information technology systems, including service delivery. Specifically, in a recent report on SSA management challenges,[21] while the Inspector General noted his support of SSA's decision to offer more services online to enhance customer service, he cautioned the agency to proceed carefully with this initiative, ensuring proper authentication controls are in place before full implementation. As we have reported over the years, protecting sensitive information is a governmentwide concern. Consistent with the evolving and growing nature of the threats to federal information systems, federal agencies are reporting an increasing number of security incidents. These incidents put sensitive, personally identifiable information at risk, which can expose individuals to loss of privacy, identity theft, and financial crimes. One of the three most prevalent types of incidents reported by federal agencies during fiscal year 2010 was unauthorized access, where an individual gains logical or physical access to a system without permission.

[20] In developing the new electronic authentication system, SSA officials said they followed guidelines from the Office of Management and Budget (OMB) and the National Institute of Standards and Technology. OMB defines four levels of authentication assurance for electronic transactions and identifies criteria for determining the level of assurance required for specific applications and transactions, based on risks and their likelihood of occurrence. The levels increase from 1 to 4 based on increasing risk level. For example, OMB guidance states that level 2 is appropriate for a wide-range of business with the public, and level 4 is appropriate when a person is gaining access to highly restricted Web resources. Because it was unclear what SSA information would be made available behind the system, SSA developed plans for the system that meet criteria for levels 2 and 3. The agency's recent risk assessment determined that the online statement is a level 2 application. As part of our analysis, we did not independently assess the level of authentication necessary for the statement.

[21] See SSA Inspector General, *Top Issues Facing Social Security Administration Management–Fiscal Year 2011*, (Dec. 1, 2010).

While SSA officials reported that upcoming tests of the portal will focus on its user-friendliness, they do not have plans in place for publicizing the online statement. Specifically, the project lead for the online statement said that an internal work group is currently considering options for SSA's public roll-out of the online statement, but the agency has not yet developed a plan for carrying it out. However, if significant numbers of workers do not choose to access the statement online, SSA could face increased requests for mailed paper copies of the statement and higher administrative costs. Key SSA officials involved in the project said they are optimistic that once the statement is available online, many people will want real-time access to this information. Nonetheless, through its own 2010 survey of statement recipients, SSA found that only 21 percent expressed a preference for receiving the statement electronically instead of by mail, including 8 percent who said they would prefer to receive the statement on request via e-mail and 13 percent who said they would prefer to obtain it online. These data suggest that SSA will need to employ a substantial public relations strategy to ensure workers are made aware of and encouraged to access the online statement.[24]

SSA officials also could not provide information on how they plan to address access issues related to the online statement. Although SSA currently has a pilot project underway that has made computer workstations available to the public in selected field offices,[25] SSA officials have not yet determined how those could be used to access the portal and online statement. However, such use may be needed by individuals who do not otherwise have Internet access. In addition, key officials involved in the online statement project could not provide information on any other plans SSA is developing to address Internet access issues. Concerning access to the online statement for workers with limited English proficiency, officials explained that they would like to develop Spanish versions of the portal and online statement in the future, but the

[24]Federal law also requires SSA, to the maximum extent practicable, to notify eligible individuals of the availability of the statement. 42 U.S.C. § 1320b-13(b). In comments, SSA officials said that this provision requires the agency to inform individuals of the availability of statements upon request, not statements in general. As a result, SSA officials said that this provision does not appear to require the agency to employ a substantial public relations campaign for the online statement.

[25]Eighty-nine of SSA's approximately 1,300 field offices are sites for this pilot project.

first publicly released versions will be in English only.[26] However, when SSA resumes mailings of the paper statement, workers will be able to request paper statements in English or Spanish.

Finally, while the Commissioner cited budget constraints as the reason for suspending mailings of the statement March 2011,[27] total costs associated with the agency's plans for resuming provision of the statement are unknown. Although SSA is required to provide the statement annually to eligible individuals who meet the statutory requirements, officials said SSA suspension of the statement mailings is expected to save the agency $30 million in fiscal year 2011. Further, officials said that the agency decided not to renew the contract for mailing the statements for another year as one of several measures to ensure SSA remained within its budget. SSA officials indicated that the agency's fiscal year 2011 appropriation for administrative expenses, which is used for the provision of the statement, was $1 billion below the President's budget request and about $23 million below its fiscal year 2010 appropriation.[28] While the suspension may save SSA administrative costs in the short-term, the full extent of savings is unknown, as officials could not provide us with an estimate of the total cost of the online statement project. SSA officials said they expect that this project will be cost-effective over time; however, it may involve greater costs in the short-term for development, testing, and publicity. Further, SSA officials in charge of drafting the new contract for mailing statements acknowledged that it is unknown how many workers will request mailed statements once the online statement is available, as that number will depend on factors such as individuals' willingness and capability to access the statement online. The new contract for mailing statements, likely only for those age 60 and

[26]SSA has recently taken steps to provide retirement benefits information in Spanish online. For example, in December 2010, SSA released an online Spanish-language Retirement Estimator for public use, to "provide a broader audience with important information they need to plan for a secure retirement." However, as previously noted, the Retirement Estimator does not provide all of the information that is available on the statement.

[27]Because of its budget constraints, SSA cut spending on various activities during fiscal year 2011. However, according to an SSA budget official, the statement mailings were the only mandatory function that the agency cut.

[28]According to an SSA budget official, in fiscal year 2010, SSA's appropriation for its Limitation on Administrative Expenses account was $11.447 billion, and in fiscal year 2011, the agency's appropriation was $11.424 billion. However, the President's budget request for fiscal year 2011 was $12.379 billion.

older who have not yet begun claiming benefits and those who request it is currently being drafted as a cost reimbursement contract, which is considered high risk for the government because of the potential for cost escalation

Beyond Format Enhancements, SSA is Taking Only Limited Steps to Improve the Statement's Usefulness

SSA officials said they expect to improve the usefulness of the statement for some by moving it to an online format. While they acknowledged that budgetary constraints were the driving factor behind the agency's consideration of online statements, they also suggested that the online format has advantages for individuals. Specifically, individuals will have immediate access to their statements through a format that is commonly used by banks, health care providers, and others. For those with Internet access, the information will be available whenever they are thinking about retirement planning. Further, in the event that they spot an error in their earnings information and request a correction, verification that their earnings history has been accurately updated will be easier because the online statement will be readily available.[illegible]

Further, SSA plans to make some limited design enhancements to the online version of the statement. Specifically, officials told us the online format offers the agency an opportunity to provide links to related information, thereby allowing SSA to minimize some lengthy descriptions and add richer information without adding to the statement's length. For example, officials told us they plan to link some of the information currently contained on the last page of the statement to the related benefits and earnings data in the online version, as well as add links to SSA's online tools for estimating and applying for retirement benefits. We have previously noted that the length of a document can influence how useful it is to beneficiaries, and some groups have concerns that too much information can overwhelm beneficiaries. The project lead for the online statement acknowledged this and told us SSA plans to draw upon industry best practices for screen design and layout in order to make the online statement more reader-friendly than the paper statement. (According to officials, a prototype was not available at the time of our review.) In addition, SSA plans to integrate content from its special inserts

[illegible] In our prior work, we found that many industry groups place emphasis on computer-based formats, partly to lower costs like printing and mailing. One industry association commented in our work on 401(k) fees that Internet-based information is easier to maintain and update so that it tends to be more timely and accurate.

for workers age 55 and older and those age 25 to 35 in the online statement and make electronic facsimiles of the paper inserts available for viewing and printing.

While SSA is making these limited changes, the project lead said the first publicly released version of the online statement will be as similar to the current mailed statement as possible. Further, the same content that is currently available on the inserts will be made available online. While SSA plans to incorporate some graphics into the online statement, these are limited to what is already present in the paper statement and inserts. However, in our prior work, using graphics to replace text and make information more quickly and easily understandable was a common theme that emerged in the suggestions made by focus groups and a benefits consulting firm.[30]

Officials told us they have no current plans to update the paper statement, which will still be in use, even though we and others have suggested ways to improve its design. Under SSA's current plans, in addition to mailing the paper statement to individuals meeting certain criteria[31] and any other eligible individuals who request it, SSA will allow individuals to view and print a facsimile of the paper statement when accessing the online statement. Officials told us they do not plan to change the statement's content because much of it is statutorily required and individuals have expressed a high level of satisfaction with the statement in SSA's surveys and focus groups.[32] For example, in SSA's 2010 survey, 41 percent of respondents said they were very satisfied with the statement overall and another 44 percent reported being somewhat satisfied. However, we and others have previously identified ways in

[30]For example, many focus group participants liked a private sector statement's use of a colored pie chart illustrating what percentage Social Security and other retirement savings will be required to replace current monthly salary. The benefits consulting firm recommended this figure as a way to provide more context on income needs in retirement.

[31]According to the Commissioner's earlier testimony to the Congress, as well as our interviews with SSA officials, SSA is currently considering resuming mailings of the statement to eligible individuals age 60 and older who are not yet receiving benefits.

[32]Since 2008, SSA has commissioned four surveys of the public about the statement and how well it is performing the functions of educating the public about SSA programs, aiding financial planning, and verifying earnings. The baseline survey was conducted in 2008 with follow-up surveys in 2009 and 2010. SSA has also conducted focus groups, in part, to test how well readers understand specific language and concepts in the statement and inserts.

which SSA could modify the design of the paper statement to improve its usefulness for recipients. For example, in our 2005 report,[33] we noted that the paper statement lacks white space and is text-intensive, which means that important concepts may not stand out. Similarly, in SSA's own focus groups, participants frequently noted that the statement has too much text, although in the agency's 2010 survey, some respondents said the statement is missing key information about their retirement benefit amount. According to a 2009 report from the Social Security Advisory Board, "information is presented as a laundry list of facts and data, rather than cogent summaries of things that people need to know to make informed decisions."[34]

Furthermore, even though we and others have previously reported that certain information contained in the statement is confusing, SSA has no plans at this time to change its content in either the paper or online version. In focus groups conducted for our 2005 report, during which participants reviewed the statement's content and design and compared them with those of a private sector benefits statement, participants provided detailed insights about the areas of the statement they understood and how confusing information might be improved. For example, participants identified some cases where they did not understand the actual meaning of a word or phrase, such as "actuary" or "intermediate assumption." Also, the phrase "compact between the generations," used to describe the pay-as-you-go nature of Social Security, was unclear to many. Participants across focus groups also did not understand explanations of certain concepts discussed in the statement, such as the role of credits in determining their eligibility for retirement benefits versus the role of earnings in determining their actual retirement benefit. Information about the financial stability of the Social Security system was also confusing for most focus group participants. Phrases such as "we will need to resolve these issues soon" did not provide the information many felt they needed to understand the problem and what personal action, if any, they were expected to take. Additionally, according to a benefits consulting firm that evaluated the statement, it does not compare the retirement benefit with how much income a person may need in retirement or offer suggestions and strategies for meeting

[33]See GAO-05-192.

[34]Social Security Advisory Board, *The Social Security Statement: How it Can be Improved*, (Washington, D.C.: August 2009).

income goals through other sources of retirement income.[35] As a result, we concluded workers may not fully understand their benefits and the role Social Security should play in their retirement planning.

SSA's own financial literacy initiative also provides detailed information on opportunities for improving the statement's usefulness, particularly to help people plan for retirement, and SSA considers the statement to be a key component of this initiative. However, the extent to which staff from the office in charge of the initiative have been consulted on the design or content of the online statement, or on decisions about which groups should continue to receive a print statement, is unclear. According to the key SSA official responsible for the initiative, the initiative's studies and the work of other researchers have found that the way information is packaged can affect how individuals respond. One research project that was funded through SSA's Financial Literacy Research Consortium[36] found that the presentation of benefit information can affect the age at which people report they will claim Social Security benefits.[37] For example, emphasizing gains (delaying claiming by one year will increase your annuity by $X per month) rather than losses (claiming one year earlier will reduce your annuity by $X per month) led to study respondents reporting they would delay claiming.[38] Another project examined how alternative approaches for presenting information on future estimated

[35] SSA's insert for younger workers provides some guidance on this topic. For example, it states, "Financial planners generally agree retirees will need about 70–80 percent of preretirement earnings to enjoy a comfortable retirement. For an average worker, Social Security replaces about 40 percent of annual preretirement earnings."

[36] The consortium consists of three nonpartisan, multidisciplinary research centers at Boston College, the RAND Corporation, and the University of Wisconsin, and is intended to develop innovative materials and programs to help Americans plan for a secure retirement. Established in 2009, the consortium was funded at $9.2 million in fiscal year 2010 and will be discontinued at the end of fiscal year 2011 due to budget constraints, according to an agency official.

[37] Jeffrey R. Brown, Olivia S. Mitchell, and Arie Kapteyn, *Framing Effects and Social Security Claiming Behavior*, prepared for the Social Security Administration, WR-793-SSA (October 2010).

[38] The study authors recognize that a limitation of the research is that it relies on stated intentions about future claiming behavior, rather than on actual claiming decisions.

benefits might assist individuals in retirement planning and reduce the potential for confusion.[39]

Other SSA-funded research also provides insights into areas where SSA might focus future efforts to improve the statement's usefulness. One study of near-retirees' ability to estimate their Social Security benefits found the accuracy of their estimates has not improved since the statement has been universally distributed.[40] According to the researcher, individuals' ability to accurately estimate their benefits has implications for their savings rates and investment decisions, among other considerations. Additionally, the study found that many people may interpret Social Security benefits as accruing to households rather than to individuals and therefore estimate their benefits at either half or double their actual value. This misunderstanding may be attributable to the statement lacking a general explanation of spousal benefits and not cautioning recipients that the estimates are based on their own individual earnings records and may also depend on their spouses' earnings if they are married. A separate project examined what people know about various aspects of the benefits offered by Social Security and assessed their knowledge gaps.[41] Half of those responding to a seven-question quiz on basic Social Security knowledge, included as part of a survey of working-aged adults, received a grade of D or F. While two-thirds of the respondents reported that they recalled receiving the statement within the last 6 months, very few respondents understood how their Social Security benefits are calculated.[42]

[39]Andrew G. Biggs, *Exploring Alternative Ways to Present Estimated Future Social Security Benefits in the Social Security Statement*, prepared for the Social Security Administration, WR-801-SSA (October 2010).

[40]Andrew G. Biggs, *Improving the Social Security Statement*, prepared for the Social Security Administration, WR-794-SSA (October 2010).

[41]Mathew Greenwald, Arie Kapteyn, Olivia S. Mitchell, and Lisa Schneider, *What Do People Know About Social Security?*, prepared for the Social Security Administration, WR-792-SSA (October 2010).

[42]Nearly one quarter (23 percent) of respondents incorrectly believed benefits are based on Social Security taxes they have paid and interest earned on those taxes, and nearly one in five (19 percent) incorrectly believed they have to claim benefits as soon as they stop working.

Conclusions and Recommendation

Although SSA's budgetary decision to suspend statement mailings will leave some Americans without a statement this year, it has also created the impetus for SSA to seek new and more cost-effective ways to distribute this information. Providing the statement online could be one of those ways, and if SSA can assure the security of this sensitive information, this approach holds real promise: it can both meet the electronic demands of an increasingly Internet-literate population while providing flexibility for improved statement design.

Yet because the decision to suspend was made relatively abruptly, the agency faces pressure to take quick action that will restore public access to the statements. As a result, officials currently are not in a position to fully redesign the statement to improve its usefulness and clarity. Furthermore, SSA has not yet considered how they will reach those who cannot or will not obtain the statement online, though at least some will not be able to read statements provided only in English. Because people in these groups may likely be lower earners, they can least afford to remain uninformed about their Social Security benefits. Access must be addressed before the online statement can be considered a success, yet because the statement is currently unavailable, there is limited time for SSA to consider these important questions in a measured way.

Still, it is vital that SSA address the issues of access and design. Any changes made to the Social Security program to restore fiscal stability or for any other reasons must be explained to the American people clearly and quickly, to assure that participants in this important social insurance program understand what benefits they can expect and when. The statement is SSA's best option for communicating this important information and, as such, deserves to occupy a position of higher priority in SSA planning and decisionmaking.

Therefore, as SSA considers moving forward with an online statement, we recommend the following:

- the Commissioner of SSA should take steps to ensure access to the statement for all eligible workers, including those without Internet access or English proficiency. Doing so will assure that the statement remains an important tool for communicating with all workers about the Social Security program.

We provided a draft of this testimony to SSA for review and comment. SSA provided technical comments, which we incorporated as appropriate

Chairman Johnson, Ranking Member Becerra, and Members of the Committee, this concludes my prepared statement. I would be happy to respond to questions.

Contacts and Staff Acknowledgments

For further questions on this testimony, please contact me at (202) 512-7215 or bovbjergb@gao.gov. Individuals who made key contributions to this testimony include Michael Collins, Rachel Frisk, Kristen Jones, Amy Anderson, David Chrisinger, Carla Craddock, Sarah Cornetto, Sheila McCoy, Susan Offutt, Frank Todisco, Walter Vance, Christie Motley, Mike Alexander, David Hong, and Brandon Pettis.

Appendix I: 2011 Social Security Statement

SOCIAL SECURITY ADMINISTRATION USA

Prevent identity theft—protect your Social Security number

Your Social Security Statement

www.socialsecurity.gov

Prepared especially for Wanda Worker

January 3, 2011

See inside for your personal information

WANDA WORKER
456 ANYWHERE AVENUE
MAINTOWN, USA 11111-1111

What's inside…

What Social Security Means To You

This *Social Security Statement* can help you plan for your financial future. It provides estimates of your Social Security benefits under current law and updates your latest reported earnings.

Please read this *Statement* carefully. If you see a mistake, please let us know. That's important because your benefits will be based on our record of your lifetime earnings. We recommend you keep a copy of your *Statement* with your financial records.

Social Security is for people of all ages…
We're more than a retirement program. Social Security also can provide benefits if you become disabled and help support your family after you die.

Work to build a secure future…
Social Security is the largest source of income for most elderly Americans today, but Social Security was never intended to be your only source of income when you retire. You also will need other savings, investments, pensions or retirement accounts to make sure you have enough money to live comfortably when you retire.

Saving and investing wisely are important not only for you and your family, but for the entire country. If you want to learn more about how and why to save, you should visit ***www.mymoney.gov***, a federal government website dedicated to teaching all Americans the basics of financial management.

About Social Security's future…
Social Security is a compact between generations. Since 1935, America has kept the promise of security for its workers and their families. Now, however, the Social Security system is facing serious financial problems, and action is needed soon to make sure the system will be sound when today's younger workers are ready for retirement.

In 2015 we will begin paying more in benefits than we collect in taxes. Without changes, in 2037 the Social Security Trust Fund will be able to pay only about 78 cents for each dollar of scheduled benefits.* We need to resolve these issues soon to make sure Social Security continues to provide a foundation of protection for future generations.

Social Security on the Net…
Visit ***www.socialsecurity.gov*** on the Internet to learn more about Social Security. You can read publications, including *When To Start Receiving Retirement Benefits*; use our Retirement Estimator to obtain immediate and personalized estimates of future benefits; and when you're ready to apply for benefits, use our improved online application—It's so easy!

Michael J. Astrue
Commissioner

* These estimates are based on the intermediate assumptions from the Social Security Trustees' Annual Report to the Congress.

Your Estimated Benefits

***Retirement**	You have earned enough credits to qualify for benefits. At your current earnings rate, if you continue working until...	
	your full retirement age (67 years), your payment would be about	$ 1,354 a month
	age 70, your payment would be about	$ 1,938 a month
	age 62, your payment would be about	$ 1,072 a month
***Disability**	You have earned enough credits to qualify for benefits. If you became disabled right now, your payment would be about	$ 1,419 a month
***Family**	If you get retirement or disability benefits, your spouse and children also may qualify for benefits.	
***Survivors**	You have earned enough credits for your family to receive survivors benefits. If you die this year, certain members of your family may qualify for the following benefits.	
	Your child	$ 1,107 a month
	Your spouse who is caring for your child	$ 1,107 a month
	Your spouse, if benefits start at full retirement age	$ 1,477 a month
	Total family benefits cannot be more than	$ 2,720 a month
	Your spouse or minor child may be eligible for a special one-time death benefit of $255.	
Medicare	You have enough credits to qualify for Medicare at age 65. Even if you do not retire at age 65, be sure to contact Social Security three months before your 65th birthday to enroll in Medicare.	

*** Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because, by 2037, the payroll taxes collected will be enough to pay only about 78 percent of scheduled benefits.**

We based your benefit estimates on these facts:

Your date of birth (please verify your name on page 1 and this date of birth)	April 5, 1970
Your estimated taxable earnings per year after 2010	$42,492
Your Social Security number (only the last four digits are shown to help prevent identity theft)	XXX-XX-1234

How Your Benefits Are Estimated

To qualify for benefits, you earn "credits" through your work — up to four each year. This year, for example, you earn one credit for each $1,120 of wages or self-employment income. When you've earned $4,480, you've earned your four credits for the year. Most people need 40 credits, earned over their working lifetime, to receive retirement benefits. For disability and survivors benefits, young people need fewer credits to be eligible.

We checked your records to see whether you have earned enough credits to qualify for benefits. If you haven't earned enough yet to qualify for any type of benefit, we can't give you a benefit estimate now. If you continue to work, we'll give you an estimate when you do qualify.

What we assumed — If you have enough work credits, we estimated your benefit amounts using your average earnings over your working lifetime. For 2011 and later (up to retirement age), we assumed you'll continue to work and make about the same as you did in 2009 or 2010. We also included credits we assumed you earned last year and this year.

Generally, the older you are and the closer you are to retirement, the more accurate the retirement estimates will be because they are based on a longer work history with fewer uncertainties such as earnings fluctuations and future law changes. We encourage you to use our online Retirement Estimator at ***www.socialsecurity.gov/estimator*** to obtain immediate and personalized benefit estimates.

We can't provide your actual benefit amount until you apply for benefits. **And that amount may differ from the estimates stated above because:**

(1) Your earnings may increase or decrease in the future.
(2) After you start receiving benefits, they will be adjusted for cost-of-living increases.
(3) Your estimated benefits are based on current law. **The law governing benefit amounts may change.**
(4) Your benefit amount may be affected by **military service, railroad employment or pensions earned through work on which you did not pay Social Security tax.** Visit ***www.socialsecurity.gov/mystatement*** to learn more.

Windfall Elimination Provision (WEP) — In the future, if you receive a pension from employment in which you do not pay Social Security taxes, such as some federal, state or local government work, some nonprofit organizations or foreign employment, and you also qualify for your own Social Security retirement or disability benefit, your Social Security benefit may be reduced, but not eliminated, by WEP. The amount of the reduction, if any, depends on your earnings and number of years in jobs in which you paid Social Security taxes, and the year you are age 62 or become disabled. For more information, please see *Windfall Elimination Provision* (Publication No. 05-10045) at ***www.socialsecurity.gov/WEP***.

Government Pension Offset (GPO) — If you receive a pension based on federal, state or local government work in which you did not pay Social Security taxes and you qualify, now or in the future, for Social Security benefits as a current or former spouse, widow or widower, you are likely to be affected by GPO. If GPO applies, your Social Security benefit will be reduced by an amount equal to two-thirds of your government pension, and could be reduced to zero. Even if your benefit is reduced to zero, you will be eligible for Medicare at age 65 on your spouse's record. To learn more, please see *Government Pension Offset* (Publication No. 05-10007) at ***www.socialsecurity.gov/GPO***.

2 (C)

Your Earnings Record

Years You Worked	Your Taxed Social Security Earnings	Your Taxed Medicare Earnings
1986	578	578
1987	1,427	1,427
1988	2,334	2,334
1989	4,215	4,215
1990	5,803	5,803
1991	7,099	7,099
1992	9,045	9,045
1993	11,245	11,245
1994	13,483	13,483
1995	15,837	15,837
1996	18,155	18,155
1997	20,718	20,718
1998	23,157	23,157
1999	25,700	25,700
2000	28,097	28,097
2001	29,891	29,891
2002	30,982	30,982
2003	32,430	32,430
2004	34,017	34,017
2005	36,544	36,544
2006	38,822	38,822
2007	41,162	41,162
2008	42,001	42,001
2009	42,492	42,492
2010	Not yet recorded	Not yet recorded

You and your family may be eligible for valuable benefits:

When you die, your family may be eligible to receive survivors benefits.

Social Security may help you if you become disabled—even at a young age.

A young person who has worked and paid Social Security taxes in as few as two years can be eligible for disability benefits.

Social Security credits you earn move with you from job to job throughout your career.

Total Social Security and Medicare taxes paid over your working career through the last year reported on the chart above:

Estimated taxes paid for Social Security:		Estimated taxes paid for Medicare:	
You paid:	$31,027	You paid:	$7,625
Your employers paid:	$31,027	Your employers paid:	$7,625

Note: In 2011, you pay 4.2 percent of your salary, up to $106,800, in Social Security taxes and 1.45 percent in Medicare taxes on your entire salary. Your employer pays 6.2 percent in Social Security taxes and 1.45 percent in Medicare taxes for you. If you are self-employed, you pay the combined employee and employer amount of 10.4 percent in Social Security taxes and 2.9 percent in Medicare taxes on your net earnings.

Help Us Keep Your Earnings Record Accurate

You, your employer and Social Security share responsibility for the accuracy of your earnings record. Since you began working, we recorded your reported earnings under your name and Social Security number. We have updated your record each time your employer (or you, if you're self-employed) reported your earnings.

Remember, it's *your* earnings, not the amount of taxes you paid or the number of credits you've earned, that determine your benefit amount. When we figure that amount, we base it on your average earnings over your lifetime. If our records are wrong, you may not receive all the benefits to which you're entitled.

Review this chart carefully using your own records to make sure our information is correct and that we've recorded each year you worked. You're the only person who can look at the earnings chart and know whether it is complete and correct.

Some or all of your earnings from **last year** may not be shown on your *Statement*. It could be that we still were processing last year's earnings reports when your *Statement* was prepared. Your complete earnings for last year will be shown on next year's *Statement*. **Note:** If you worked for more than one employer during any year, or if you had both earnings and self-employment income, we combined your earnings for the year.

There's a limit on the amount of earnings on which you pay Social Security taxes each year. The limit increases yearly. Earnings above the limit will not appear on your earnings chart as Social Security earnings. (For Medicare taxes, the maximum earnings amount began rising in 1991. Since 1994, **all** of your earnings are taxed for Medicare.)

Call us right away at **1-800-772-1213** (7 a.m.–7 p.m. your local time) if any earnings for years **before last year** are shown incorrectly. Please have your W-2 or tax return for those years available. (If you live outside the U.S., follow the directions at the bottom of page 4.)

Some Facts About Social Security

About Social Security and Medicare...

Social Security pays retirement, disability, family and survivors benefits. Medicare, a separate program run by the Centers for Medicare & Medicaid Services, helps pay for inpatient hospital care, nursing care, doctors' fees, drugs, and other medical services and supplies to people age 65 and older, as well as to people who have been receiving Social Security disability benefits for two years or more. Medicare does not pay for long-term care, so you may want to consider options for private insurance. Your Social Security covered earnings qualify you for both programs. For more information about Medicare, visit ***www.medicare.gov*** or call **1-800-633-4227** (TTY **1-877-486-2048** if you are deaf or hard of hearing).

Retirement — If you were born before 1938, your full retirement age is 65. Because of a 1983 change in the law, the full retirement age will increase gradually to 67 for people born in 1960 and later.

Some people retire before their full retirement age. You can retire as early as 62 and take benefits at a reduced rate. If you work after your full retirement age, you can receive higher benefits because of additional earnings and credits for delayed retirement.

Disability — If you become disabled before full retirement age, you can receive disability benefits after six months if you have:

— enough credits from earnings (depending on your age, you must have earned six to 20 of your credits in the three to 10 years before you became disabled); and

— a physical or mental impairment that's expected to prevent you from doing "substantial" work for a year or more or result in death.

If you are filing for disability benefits, please let us know if you are on active military duty or are a recently discharged veteran, so that we can handle your claim more quickly.

Family — If you're eligible for disability or retirement benefits, your current or divorced spouse, minor children or adult children disabled before age 22 also may receive benefits. Each may qualify for up to about 50 percent of your benefit amount.

Survivors — When you die, certain members of your family may be eligible for benefits:

— your spouse age 60 or older (50 or older if disabled, or any age if caring for your children younger than age 16); and

— your children if unmarried and younger than age 18, still in school and younger than 19 years old, or adult children disabled before age 22.

If you are divorced, your ex-spouse could be eligible for a widow's or widower's benefit on your record when you die.

Extra Help with Medicare — If you know someone who is on Medicare and has limited income and resources, extra help is available for prescription drug costs. The extra help can help pay the monthly premiums, annual deductibles and prescription co-payments. To learn more or to apply, visit ***www.socialsecurity.gov*** or call **1-800-772-1213** (TTY **1-800-325-0778**).

Receive benefits and still work...

You can work and still get retirement or survivors benefits. If you're younger than your full retirement age, there are limits on how much you can earn without affecting your benefit amount. When you apply for benefits, we'll tell you what the limits are and whether work would affect your monthly benefits. When you reach full retirement age, the earnings limits no longer apply.

Before you decide to retire...

Carefully consider the advantages and disadvantages of early retirement. If you choose to receive benefits before you reach full retirement age, your monthly benefits will be reduced.

To help you decide the best time to retire, we offer a free publication, *When To Start Receiving Retirement Benefits* (Publication No. 05-10147), that identifies the many factors you should consider before applying. Most people can receive an estimate of their benefit based on their actual Social Security earnings record by going to ***www.socialsecurity.gov/estimator***. You also can calculate future retirement benefits by using the Social Security Benefit Calculators at ***www.socialsecurity.gov***.

Other helpful free publications include:

— *Retirement Benefits* (No. 05-10035)
— *Understanding The Benefits* (No. 05-10024)
— *Your Retirement Benefit: How It Is Figured* (No. 05-10070)
— *Windfall Elimination Provision* (No. 05-10045)
— *Government Pension Offset* (No. 05-10007)
— *Identity Theft And Your Social Security Number* (No. 05-10064)

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You may also qualify for government benefits outside of Social Security. For more information on these benefits, visit ***www.govbenefits.gov***.

If you need more information — Visit ***www.socialsecurity.gov/mystatement*** on the Internet, contact any Social Security office, call **1-800-772-1213** or write to Social Security Administration, Office of Earnings Operations, P.O. Box 33026, Baltimore, MD 21290-3026. If you're deaf or hard of hearing, call TTY **1-800-325-0778**. If you have questions about your personal information, you must provide your complete Social Security number. If your address is incorrect on this *Statement*, ask the Internal Revenue Service to send you a Form 8822. We don't keep your address if you're not receiving Social Security benefits.

Para solicitar una *Declaracion* en español, llame al 1-800-772-1213

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Chairman JOHNSON. Thank you very much.

Ms. BOVBJERG. Thank you.

Chairman JOHNSON. I appreciate that. We are struggling to meet a vote deadline here this morning, so I would like everyone to have a chance to ask questions. And I will limit my time to five minutes, and ask the ranking member to do the same.

Mr. Terry, your testimony makes very clear and compelling case for raising the retirement age. When the actuaries endorse working longer, that is not risk-taking, according to you. It is not to me, either. Everyone ought to be listening carefully to what you and the experts have to say on this issue.

So, we cannot force people to work longer, but we can encourage them. And it makes no sense to me to tax someone who wants to work, and, who we, as a nation, need to have to work. In other words, we may not want to tax them as they get past a certain age. And why not encourage older workers by freeing them of their Social Security payroll tax that taxes the very first dollar of income? Makes sense to me. Must make sense to you, because you mentioned it in your remarks.

How much would this boost older workers' willingness to work? And do you think it would encourage, or we should encourage employers to create jobs for them? And finally, how would this benefit our country? Mr. Terry?

Mr. TERRY. Well, it is an excellent—I like the way you posed the question, because I think you are suggesting that it is not simply a matter of forcing people to do something they don't want to do, that we, in fact, may have impediments inadvertently set up to—sort of preventing people from working longer.

If work is thought of as drudgery from which people must escape, and that Social Security is the savior for that escape, then I think that is a flawed—that is probably a flawed premise. And I think the premise of your question is that, in fact, there may well be removal of disincentives to work. They could very well encourage the sort of increasing productivity out of the workforce that we all could benefit from.

The Academy doesn't have a, per se, position around the elimination of payroll taxes, or the—you know, the cutting back of payroll taxes for older workers. That can and should be something that is on the table, obviously, and we would be happy to take a look at that and sort of examine it, from an actuarial perspective. We haven't done that yet, but we would be pleased to do so.

Chairman JOHNSON. Why don't you do it for us?

Mr. TERRY. Yes, will do.

Chairman JOHNSON. Thank you. The Social Security statement is one of the few government publications that reaches nearly every working-aged American. The statement reminds workers how much of their hard-earned wages they have paid in taxes for the promise of future Social Security benefits, and gives an estimate of what those benefits might be.

Dr. Bovbjerg, can Social Security choose not to provide a statement to workers, or is it required by law?

Ms. BOVBJERG. The law says that the Social Security Administration must provide a Social Security statement to individuals aged 25 and over. How that statement is provided, and whether it is mailed, or whether it is online, is something that Social Security is considering right now.

Chairman JOHNSON. So you don't think they violated the law when they didn't send one in the mail.

Ms. BOVBJERG. We do not have an opinion on whether they violated the law. We prefer to let courts make those decisions.

Chairman JOHNSON. Come on.

[Laughter.]

Ms. BOVBJERG. We do think that it is very important that people get this statement. And when the decision was made back in the spring not to mail the statement any more, to cancel that contract, it was made for budgetary reasons. But it did not, I believe, consider the fact that there could be a full calendar year in which statements are not going out.

Chairman JOHNSON. Yes. Well, what does the law require——

Ms. BOVBJERG. One hundred and fifty million people.

Chairman JOHNSON.—Social Security to include in that statement?

Ms. BOVBJERG. Oh, there are many things. It is——

Chairman JOHNSON. And did they do it online?

Ms. BOVBJERG. Well, we haven't seen——

Chairman JOHNSON. Did they put everything in it?

Ms. BOVBJERG. We haven't seen what they are putting online yet. But what they have in the current statement, which we have reproduced in the back of my written testimony, is they show what your earnings record is, they estimate your future benefits, they talk about the offsets that apply to public employees and some in the railroad industry.

There are many things that Social Security must include there. And we don't dispute that. I think we are concerned about how those things are explained.

Chairman JOHNSON. Thank you very much. Mr. Becerra, you are recognized for five minutes.

Mr. BECERRA. Thank you, Mr. Chairman. And thank you all for your testimony. I suspect we will be calling on all of you for your ideas, whether it is nine points or one point into the future, because I do believe that there is an appetite to discuss how we get to a solution on Social Security. So thank you very much.

Ms. Entmacher, let me ask you something, because the story you recounted of the woman in Oregon sounds eerily familiar to the story I hear from too many seniors in my congressional district in Los Angeles, where the costs are probably even higher than the costs of the woman you mentioned in Oregon.

If you take a look over the lifetime, and if someone lives into their eighties or nineties, that is quite a few years of collecting about $14,000, on average, a year——

Ms. ENTMACHER. $12,000 for women.

Mr. BECERRA. $12,000 for women—and you are right, we do have to address that imbalance for women—and then, when you put Medicare in there, it is a good chunk of money.

But, at the same time, we are finding that health care costs are eclipsing any cost of living that seniors are getting in their COLA in Social Security. And $14,000, as you mentioned, is not much to start with.

How do you see this going? If we get to the point of trying to deal with making Social Security stronger into the future so that my kids and their kids know that it will be there the way it is for today's seniors—and I hope for me, as well, and I expect for me—what should we be doing to try to make sure that we can tell the woman in Oregon or my constituent in Los Angeles that Social Security will be as strong today—tomorrow as it is today?

Ms. ENTMACHER. Well, I think there are two separate problems that need to be looked at separately, although they are often talked about together as Social Security and Medicare and Medicaid.

Health care costs are on a trajectory of increase that is unsustainable. And it is not just the federal health programs. Actually, health care costs in the federal programs are rising somewhat more slowly than health care costs in the private sector. So there is a real need to control the growth of health care costs to see where we can find real efficiencies without impeding benefits and the quality of care. And I think my expertise is not in health—is not in health care reform. But clearly, that is an area where we do see costs continuing to escalate.

If you look at the growth curve for Social Security benefits, as the chairman pointed out in his announcement of this hearing, they will increase to about 6.2 percent of GDP in 2035. But after that, they actually decline slightly and stay stable for the next 75 years.

So, when it comes to Social Security, we are really dealing with the fact of an aging population. Although, as the chief actuary pointed out, it is really more that there aren't as many young people as there used to be. So how do we deal with that?

I think there are solutions, fair solutions, on the revenue side. I think the wage base for Social Security is very low. We tax a much smaller percentage of wages than we have taxed in the last several decades. A lot of compensation now is outside of Social Security taxes all together. And, of course, we are taxing only a small portion of GDP.

So, I think that there are revenue solutions. And, you know, Mr. Goss testified about some of them at his testimony a couple of weeks ago. The National Academy of Social Insurance, in a paper that I cite in my written testimony, lists other ways of raising revenue for Social Security.

And it is striking—and I mention some of the public polling—that across the political spectrum—and this includes people who support the Tea Party—they support raising revenue to finance Social Security and close the deficit. You wouldn't be surprised to find that people across the political spectrum oppose cuts to Social Security benefits. But they actually also support revenue increases to strengthen the program. So I would suggest that as a place to look.

Mr. BECERRA. Thank you. Mr. Terry, you are a numbers guy. You testified how we've got to look at these numbers.

You mentioned the $2.6 trillion trust fund, and how we address the long-term life of Social Security. I pulled out the $20 bill, I pulled out the savings bond, and I guess I could have pulled out the Treasury certificate that the Social Security system has. What is your sense of how we deal with this existing debt ceiling crisis? And what is the impact on the $20 bill, the savings bond my daughter has, or the Treasury certificate for Social Security?

Chairman JOHNSON. Limit your response, please.

Mr. BECERRA. Oh, and yes, you have to do it in three seconds or less.

[Laughter.]

Mr. TERRY. Two things to say. Great question. Number one is that we actuaries—and particularly the American Academy of Actuaries—are focused on the Social Security system itself, okay? So our realm of focus is the system, itself.

Secondly, we are in the midst of preparing a detailed discussion brief, if you will, of the very question you ask about the trust funds, the—is the money real, is it not real, what are the aspects of it, and what are the attributes of it that can inform some of our thinking about the importance of that $2.6 trillion.

So, we are close to putting the finishing touches on that, and we will get that to you.

Mr. BECERRA. Appreciate that. Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you. Mr. Berg, you are recognized for five minutes.

Mr. BERG. Well, Mr. Chairman, thank you. I really don't know where to start.

I mean, I am extremely frustrated with the rhetoric on this issue. We heard today three accusations of Republican plans that are going to ruin Social Security. None of those proposals have come before this subcommittee. None of them.

We have a lot of attention today because I think the President has recognized this is an issue that should be talked about, should be debated. Everyone I talk to back in North Dakota is concerned about Social Security. And I think it has been used as a political football by different people, different interests all along.

I sit here today and I hear people say, "Well, we have 2.6 trillion, nothing to worry about." The reality is, to redeem those dollars, it comes from the general fund. I mean why are we in this debt crisis right now today? We are in it because we have got 14.3 trillion in debt, and we don't have any more money. So, the money has to come from the general fund.

I also think that it is crazy to say we should ignore this problem. I am not here to say we want to use Social Security to fund our deficit. I mean I am new here; I didn't create this problem. But, quite frankly, it has got to be fixed. I mean we are spending more in general fund than we are taking in.

And I came here to honor this promise to our seniors. I am here to honor that. And I am very frustrated when I sit here and hear, "You know what? Don't worry. We are good for 25 years. And at the end of 25 years, it is only going to go 75 percent."

We talked about the O'Linger in Oregon: 25 percent goes from 20,000 to 15,000. If we are concerned about these things, why are we ignoring them?

And so, again, I appreciate everyone's perspective. I mean the point is they quit doing the statements. Why did they quit doing the statements? They are saying for budget reasons. Well, everyone I talk to that has looked at this says there is a problem.

And so, really, my question is pretty high-level and pretty simple. And that is, I would like each of you to say what are the facts. Why should we look at this? Give me a fact that is non-disputable on why we should be spending our time on fixing Social Security or making it solvent, long-term?

MR. SCHIEBER. Me?

Mr. BERG. Absolutely.

MR. SCHIEBER. The time perspective in which the system will run out of money if we don't do anything is within the life expectancy, roughly, of people who are retiring today. So it is an issue that is going to affect almost everyone who is stepping into retirement today.

It also is——

Mr. BERG. Solvency?

MR. SCHIEBER. Solvency. And it is also well within the life expectancy of everybody who is working, or the overwhelming majority of people who are working.

The trust fund will be depleted under the projections. There will still be tax revenues coming in. The trust funds will run out of money. So it's within the life expectancy of people today who are going—who are here, participating in the program. We ought to fix it before we get to the cliff. You don't put the brakes on at the cliff, you put the brakes on as you are coming to the cliff.

Mr. TERRY. I would echo that, and what I think other panelists have said this morning, too, about the need to address it now, rather than later. And to suggest that there is not an issue is to suggest there is nothing to address right now. And the Academy believes that, in fact, action should be taken now to address the long-range deficit.

Mr. STEUERLE. Just two quick comments. The first is that there are a lot of features of Social Security that are just badly targeted. So a lot of low-income women—as I say, particularly single heads of households—really suffer discrimination in the system. And there are fixes that we need to make, regardless of whether there are imbalances or not.

The fact that so much money is now concentrated so much earlier in life—a typical couple is getting benefits now for close to 27 years, going on 3 decades. That is not a good system. There needs to be more concentration of benefits later in life, even if the system was totally imbalanced.

If you are asking specifically about the imbalances that are driving the current debate, what happened in the trust funds is while the Baby Boomers were temporarily in the workforce, they were paying in about $1 for every $.90 that was being paid out. It was still mainly a pay-as-you-go system. Today, basically for every $1 coming in, $1 is going out. And as you move towards the future, the ratio moves towards roughly $1.25 going out for every dollar coming in.

So that is sort of the simple math that we are dealing with, in terms of this largely pay-as-you-go system. And, yes, the trust fund had a little build-up when only paid out $.90 for every dollar that came in the trust fund is going in the opposite direction. So that is what is driving the system, largely because of the decline in the birth rate, and the decline in the number of workers per beneficiary.

The only ways to address a decline in workers per beneficiary are to tax workers more or take something away from the beneficiaries. That is the simple math. It is not conservative, liberal, Democratic, or Republican.

Chairman JOHNSON. Thank you. Time has run out. I will let each one of you make a short statement, if you desire.

Ms. ENTMACHER. One of the most popular options for strengthening Social Security—and I agree that action should be taken. In 1983 Congress waited until Social Security was within a few months of exhausting the trust fund, and that is an experience that I don't think anyone wants to repeat.

But right now, people pay Social Security taxes only on their first $106,800 of income. And when you explain that to people—you know, the vast majority of whom pay taxes on every single dollar they earn—they are shocked. And again, across the political spectrum people say, "Well, gee, people, you know, should pay Social Security taxes on more of their income," and that would go a long way to strengthen the trust fund, and make sure we can continue to pay benefits that are so important in North Dakota.

Mr. BLAHOUS. Just a couple of very quick points. This is important because Social Security has an imbalance. Quite apart from anything happening in the larger deficit, Social Security's own books are out of balance over the long term. There is an imbalance of benefit promises relative to incoming revenues. That has to be closed, if you want to have a self-financing Social Security system. It is best if that imbalance is closed sooner, rather than later. That gives you the fairest possible outcomes. You get the least fair outcomes if you wait until later.

I would make one final point on this. If we do wait until we are close to trust fund depletion, there is no historical precedent for closing a shortfall of that magnitude. In 1983, when they had emergency surgery to repair program finances, income and outflow were still pretty close together. We are rapidly getting to a point where they are going to be much, much further apart. There simply is no historical precedent for closing a shortfall of the size that it will be by the time the trust fund is run down.

Chairman JOHNSON. Thank you. Ms. Bovbjerg?

Ms. BOVBJERG. Social Security touches the lives of nearly every American. It is a crucially important program. Yet, for 15 years, GAO has been talking about the structural imbalance in the system, and that it will be important to act as early as possible to avoid really horrible choices later on that will hurt people dramatically.

And so, we have been arguing that having this discussion—and I congratulate the subcommittee for having this hearing and raising some of these issues—is really important, but that we do need to make decisions, and that everything should be on the table.

Chairman JOHNSON. Good testimony. Mr. Smith, you are recognized.

Mr. SMITH. Thank you, Mr. Chairman. Mr. Steuerle, you had started to touch on private pension reform toward the end of your remarks. Could you elaborate on that?

Mr. STEUERLE. Yes. In Great Britain a few years ago, they undertook a Social Security reform. And when they did it they actually—in a typically British way—had a white paper—had an outside study on what they should do. And they concluded that it would be very useful to try to increase private saving at the same time as they did Social Security reform.

Now their Social Security reform actually increased benefits in the public system. But even there, they decided that that was not enough. That flexibility was probably because they formerly indexed at a much slower rate. They decided that, to really help a broad swath of people, they really needed to build up private pension saving.

And so, if you look at our private pension system, it covers fairly poorly a majority of the population. An estimate I did a few years ago—I haven't quite updated it—basically said that for 75 percent of people who retire, Social Security and Medicare—the lifetime value of Social Security and Medicare is in excess of all of their private assets, their home.

So, we have a larger and larger percent of the population dependent upon Social Security and Medicare, which is one of the issues that Joan raises. And the question is, how do we deal with it?

Well, one way we deal with it is to try to perhaps, as my testimony would argue, increase some of those cash benefits for low and moderate-income people. But for the middle-income people, I don't think we can just get there by just adding to a system that is already out of balance. We need to work on things like private saving. And we need to recognize that this private retirement system we have set up is really not doing a good job of covering the vast majority of people.

And, you know, we can ask who is to blame. Is it the fact that employers aren't doing it correctly, or employees who aren't saving enough? It's almost beside the point. Regardless, we need to figure out ways of enhancing the saving of middle-income people as they move towards retirement.

Mr. SMITH. Thank you. Ms. Entmacher, you mentioned that there is public support for revenue increases to fix Social Security.

Ms. ENTMACHER. Mm-hmm.

Mr. SMITH. Could you elaborate on that?

Ms. ENTMACHER. Sure. The—raising the cap on taxable wages is certainly one option that is very popular. But there are also some polls that—you know, in which people say that "I would pay more in Social Security taxes to strengthen the benefits that people rely on," that this is one area of tax where people say, "I don't mind paying Social Security taxes, because I know what I am getting for it, and I would pay more to protect Social Security."

In the past, Congress, you know, in terms of automatically legislating for needs in the future, there have been scheduled small increases in the payroll tax way in the future, to make sure that Social Security stayed in balance. And this is something the public says they support, and particularly if some of the proposals for improving and strengthening Social Security that Gene has talked about were part of the discussion.

And again, I am not saying wait until the last minute. I agree with Chuck. It would be very bad to wait. But I think if there was a process of public education about how we are strengthening the program, making it better, making it more adequate—and, yes, everyone is going to be chipping in a little more. People who are very wealthy are going to be chipping in a little more. I don't know whether it can be done without, you know, increases far in the future, and the payroll tax rate, but this is what the American people say they want. They want a stronger Social Security system, and they are willing to pay for it.

Mr. SMITH. And when you mention "very wealthy," what would determine that?

Ms. ENTMACHER. Well, I mean, I—certainly, at this point, the—everyone above, you know, about $107,000 isn't contributing to Social Security. You could raise the——

Mr. SMITH. They are not contributing to Social Security, or that——

Ms. ENTMACHER. Oh, well, not—on the—you are quite right. It is the income above that amount, plus other forms of compensation, such as health care benefits that are not, you know, part of the Social Security base.

Mr. SMITH. Okay, thank you. I yield back.

Chairman JOHNSON. Thank you. Mr. Marchant, you are recognized.

Mr. MARCHANT. Thank you, Mr. Chairman. In the last 24 hours we have began to hear a lot about the concept of chained CPI, instead of the traditional COLA method. Could each of the panelists talk a little bit about that concept? Maybe describe to the public that is watching this hearing—describe to them this concept, and why it might be an important part of the solution to this problem.

MR. SCHIEBER. There has been debate about the CPI, which—what is the appropriate CPI, almost from the time we linked benefits to it. There are concerns about what is in the market basket that is used to value what is happening to the price of the goods that we consume.

And the argument, basically, between the chained CPI and the current CPI is that in the current CPI many people do not believe that we considered that when the price of a good—let's pick a car. If your—if the price of a Mercedes goes up, then maybe you don't buy the Mercedes, you switch and you buy an Audi or something, that the current CPI does not take that kind of substitution into account. And so it is over-stating what the true cost of living is, and it extends to things beyond expensive cars. It extends on down.

So, there is—the argument is that this new CPI more adequately reflects, or more closely reflects, the cost of living over time.

The problem with any market basket is you pick any specific individual, and they probably don't exactly consume that particular market basket. And so, it is an estimation to try and get as close as we can to a reasonable rate of increase in the cost of living for people.

And the argument is being made, on technical grounds, we should move from the current system to an alternative system.

Mr. TERRY. The actuarial profession will leave to the economists the question about what is the proper mix that goes into a basket of consumer goods to accurately measure inflation and its impact on indices.

But I will say that we have—we're aware that a chained CPI would likely produce a lower measure of inflation, and lower to the point where, if it were to be implemented and used to inform the cost of living adjustments, that it could close as much as a quarter of the long-term deficit—long-term imbalance in the system.

Mr. STEUERLE. I am—as an economist, I tend to favor coming up with a good measure of CPI. But if you do it by itself, I think it causes a problem in Social Security. That is because, for people who haven't retired yet, the CPI adjustment doesn't affect their growth in benefits. So the younger of you on the panel, your benefits keep growing by $10,000, $20,000, $30,000, $50,000, and that doesn't go down. The CPI hits people once they retire.

And so in the first year of retirement, you have a small adjustment—it might be one-third of one percent. That compounds. For someone retired for 25 or 30 years—the person who is 85 or 90 has a 10 percent cut. So you end up with a much bigger cut on the older elderly.

I have testified, or put in my testimony, I want to make the system go in the opposite direction. I want to increase benefits at older ages, when it does not have such a negative work disincentive, and cut back on the benefits at an early age.

Talking about the poor, or the very low income, I would try to maintain their benefits, no matter what. But my problem with doing a CPI only, without worrying about that issue, is that I prefer to backload the benefits to protect the really old, for whom there is not really that much incentive to work, because they cannot. This reduces this disincentive up front. On top of which, the older people are just more needy. So, that is one more of my concerns with the CPI adjustment.

Ms. ENTMACHER. The problem with switching to the chained CPI for Social Security is that this is a program that overwhelmingly serves people who are elderly and people with disabilities. It also serves some children, but the vast majority of beneficiaries are elderly or people with disabilities.

And what is different about them from other consumers is that they spend twice as much of their budget on health care. That is for all people 65 and older. For people 75 and older, they spend 2.5 times as much as consumers generally on health care. And the reason that matters when you are trying to figure out what is a fair cost of living adjustment is that health care costs rise so much faster than everything else.

So, if you are already spending, you know, a much bigger share of your budget on something that is rising much more quickly, a cost of living adjustment that might be fair for other purposes, or for other people, is really systematically unfair to the elderly. In fact, the Bureau of Labor Statistics, for——

Chairman JOHNSON. Close it down, please. The time has expired.

Ms. ENTMACHER. Sorry.

Mr. BECERRA. Just go ahead and finish off.

Chairman JOHNSON. Finish your statement.

Ms. ENTMACHER. Oh. The Bureau of Labor Statistics has a special CPI for the elderly. And by that measure, our current cost of living index underestimates the cost of living increases that elderly people experience.

Chairman JOHNSON. Mr. Schock, you are recognized.

Mr. SCHOCK. Thank you, Mr. Chairman, and thank you once again for hosting this very, very important hearing on a very important topic.

Once again, it appears that there are some in this room that just believe in the policy of the ostrich. If we stick our head in the sand long enough, it will go away. The reality is we've got a problem.

And, Dr. Schieber, I think you might be best to answer this. We hear about the fund eventually running out. Remind me again—and for our listeners—how many years is that estimated to be?

MR. SCHIEBER. The latest estimate, I believe, is 2036. So about 25 years.

Mr. SCHOCK. Twenty-five years.

MR. SCHIEBER. From now.

Mr. SCHOCK. And you said earlier that that is likely to be assuming somebody is healthy and in relatively good shape, if they retire today at 65?

MR. SCHIEBER. You will be around 50 then.

[Laughter.]

Mr. SCHOCK. Lord willing.

[Laughter.]

Mr. SCHOCK. So, in 2036, we deplete the assets. And so, in 2037, if you are a recipient of benefits, and you are to get $1,000 a month, what happens?

MR. SCHIEBER. You will—the next month you will get $750.

Mr. SCHOCK. Okay, $750. And that goes for a year?

MR. SCHIEBER. Well, you would get a monthly check.

Mr. SCHOCK. Correct. But the first year after the year in which we deplete the assets, we go down to 77 percent of being able to meet liabilities.

So, the second year, what happens? We have accrued basically 23 percent of last year's liabilities that we haven't been able to pay. So now, the second year, what happens?

MR. SCHIEBER. Under current law, Social Security cannot borrow money. So Social Security would be making payments at that juncture, most people assume, at the rate at which money would be coming in. So—and the rates are projected to be relatively constant out there. So it would go along somewhere around 75 percent, 78 percent, whatever the—you know, in that window.

Of course, if we have one of the happy experiences which we may have some time in the future, like the one we have been through the last couple of years, and revenues drop very significantly, then it might not be 75 percent. It may be 60 percent. So no guarantees.

Mr. SCHOCK. And so, I guess what I am having a hard time understanding is why do we continue to send statements to people who might be around 50 years from now to tell them to expect a certain benefit when we know today the truth to be that, under the current system, there—they cannot—they should not base their retirement on the current expectation.

MR. SCHIEBER. The statement does—has included, generally, a comment to the effect that the system is under-funded, and that Congress is either going to have to do something, or benefits could be reduced in the future.

But the reason that they cannot send out a statement to people who are 50 years old today or 40 years old today and say, "Oh, hey, by the way, here is one kind of calculation. But, really, your benefit is only going to be 70 percent, 80 percent of that," is because of the letters that those of you sitting at this table would get in response.

Mr. SCHOCK. But isn't that the truth? I mean isn't that current—isn't current law say that, based on the current assets in 2036, they are only going to get 77 percent?

MR. SCHIEBER. There are two aspects to current law. One is the revenue aspect, defining how much is going to be collected, and then there is a benefit formula aspect to it. And the law says something right now that is inconsistent in these two segments of its corpus. And the general public, I don't think, has a complete appreciation of what is going on. But I think, generally, they know that something is wrong.

But, you know, we go off and we propose to them that there is some magical simple solution. We hear all the time about these surveys. You know, "The public would like to pay more for Social Security, rather than having benefits cut."

Mr. SCHOCK. Right.

MR. SCHIEBER. Oh, and how would you like that done? "Well, tax people who are earning more than $106,000." That is not the American people. That is not the American workers paying for this. And if you look at table two in my presentation, the people they want to raise taxes on are already getting back less than $.50 on the dollar for what they are contributing.

FDR thought this was wrong. The early architects thought it was wrong. And Robert Ball repeatedly said that these low rates of return in this system are wrong. And what they are talking about doing is exacerbating it, because the American people, we hear, are willing to pay more taxes to support this program.

Mr. SCHOCK. Well, I see my time has expired. But it seems to me that to send out a statement which we know to be false under current law—my last statement I had with me—I think at the last hearing, for those of you that were hear—and it said that when I retire 40 years from now, I should plan, based on my current income, to receive $3,000 a month. And then it said, "Is your—is Social Security in trouble? No." And it went on to say that, under current law, it is required to meet the obligations, and on and on and on.

All I am suggesting is, for someone who is not in Congress, for someone who doesn't serve on the Social Security Subcommittee of Ways and Means, who isn't privy to this information, but only privy to the statement by which they are sent from the Social Security Administration, I think it is disingenuous, I think it is wrong, I think it is misinformation, and I think, in many respects, it is similar to a Ponzi scheme that we send people to jail for out in the real world.

So, I appreciate the chairman's continuation on this subject, and I look forward to working with him and our ranking member, here, when he realizes we've got a problem, and tries to help us fix it. Thank you.

Mr. BECERRA. Mr. Schock, I have realized the problem, but it is not Social Security.

Chairman JOHNSON. It seems like all our witnesses think Social Security has a problem.

Listen, I want to thank each and every one of you for your comments. I think this has been beneficial to all of us. Thank you for being here today.

We know in 2036, according to you, 75 percent—I am told 77 percent. Congress and the President need to find commonsense solutions to make Social Security secure, sustainable. And the sooner we do so, the sooner we can protect those who are most vulnerable. With that, I thank you all for being here, and all our members.

And the committee stands adjourned.

[Whereupon, at 10:25 a.m., the subcommittee was adjourned.]

[Questions for the record follow:]

Sylvester Schieber

Committee on Ways and Means
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)

	Yes	No
Your Name:		
1. Are you testifying on behalf of a Federal, State, or Local Government entity? a. Name of entity(ies). b. Briefly describe the capacity in which you represent this entity.	☐	☑
2. Are you testifying on behalf of any non-governmental entity(ies)? a. Name of entity(ies). b. Briefly describe the capacity in which you represent this entity.	☐	☑
3. Please list any Federal grants or contracts (including subgrants or subcontracts) which you have received during the current fiscal year or either of the two previous fiscal years: None		
4. Please list any offices or elected positions you hold. None		
5. Does the entity(ies) you represent, other than yourself, have parent organizations, subsidiaries, or partnerships you are not representing?	☐	☐
6. Please list any Federal grants or contracts (including subgrants or subcontracts) which were received by the entity(ies) you represent during the current fiscal year or either of the two previous fiscal years, which exceed 10 percent of entity(ies) revenues in the year received. Include the source and amount of each grant or contract. Attach a second page if necessary.		

Page 2

Committee on Ways and Means
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)

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Date: 6 July 2011

Thomas S. Terry

AMERICAN ACADEMY *of* ACTUARIES

Statement of
Thomas S. Terry, FSA, FCA, MAAA, EA
Chairperson, Public Interest Committee
American Academy of Actuaries

To the
Committee on Ways and Means
Subcommittee on Social Security
U.S. House of Representatives

Hearing on
Social Security's current benefit expenditures, proposed changes to future benefits and the impact those changes would have on the program, future beneficiaries, workers, and the economy.

July 8, 2011

Chairman Johnson, Ranking Member Becerra—and distinguished members of the subcommittee. Thank you for the opportunity to appear before you today to address Social Security's current and future benefit expenditures.

I appear before you today on behalf of the American Academy of Actuaries, where I currently serve as the chairperson of the Public Interest Committee. The Academy is the non-partisan professional association representing all actuaries in the United States. Our mission is to serve the public by providing independent and objective actuarial information, analysis, and education to help in the formation of sound public policy.

The time has come to increase the Social Security retirement age.

It is in this spirit that the actuarial profession, through the American Academy of Actuaries, decided in 2008 on a course of action that had never been taken in its 45-year history—for the first time the Academy would advocate for a position. Actuaries, as you might know, do not have out-sized reputations for being risk-takers. Risk-evaluators, yes. Risk-takers, no. But, because of the long-range solvency challenges facing Social Security, and recognizing current and future demographic trends, actuaries believed it was necessary to strongly recommend for the expeditious consideration of an adjustment to the Social Security program to help put it on a path toward sustainable solvency. I'm referring specifically to increasing the Social Security retirement age, a subject that I will focus on in my remarks today.

For two decades, Social Security's trustees have been telling us—annually—that the system is not in actuarial balance. What does that mean? It means that at some point in the foreseeable future—2036 according to the most recent Trustees Report—absent corrective legislation, the program will be unable to pay benefits in full in a timely fashion. Adjusting the system today means that changes can be phased in slowly over many years. But ignoring the projections and deferring needed adjustments to the future will result only in more difficulty down the road. The adjustments necessary at a long-deferred date to bring the program to actuarial balance will require more immediate and more drastic measures, measures that will have a more severe impact on beneficiaries and the taxpaying public.

Over the years, actuaries have evaluated numerous proposals to prevent us from reaching a point where drastic action is necessary. Among the many options that would alleviate the imbalance, one became immediately obvious: increasing Social Security's retirement age. As life expectancy increases, and the number of working years remains relatively constant, the proportion of workers' lives spent in retirement continues to grow. This shifting balance between working years and retirement years has contributed to the system's long-term actuarial imbalance. As actuaries, we see this as a demographic problem that demands a demographic solution.

While we understand that an increase in retirement age could reduce overall lifetime benefits, we need to keep in mind the highly relevant relationship among retirement age, benefit growth, and retirement security. When the Social Security retirement age remains fixed over time, increasing life expectancy means a de facto *automatic expansion* of benefits in terms of increasing *lifetime* benefits (and, of course, system costs). In other words, while people are retiring at ages that, even after the 1983 reform adjustments, are relatively close to the program's original retirement age, their life expectancy, or longevity, has increased and continues to increase significantly. This means that retirees will be collecting Social Security benefits over a greater period of time than previous generations. Increasing the retirement age can contribute significantly to stemming this demographic trend and help put the program back on track toward actuarial balance.

In 1940, when Social Security began paying monthly retired-worker benefits, the normal retirement age was set at age 65. At that time, workers who survived to age 65 had a remaining life expectancy of 12.7 years for males and 14.7 years for females.

In 2010 life expectancy at age 65 was 18.6 years for males and 20.7 years[1] for females. In other words, since Social Security began paying monthly benefits, life expectancy at age 65 has increased by about six years for both males and females. In addition, Social Security's Board of Trustees anticipates additional, significant improvements in life expectancy during the 75-year projection period. If the projections are borne out by actual experience, life expectancy at age 65 will have increased by about 10 years from 1940 to 2085. For more information, please view the table located in the appendix.

So, where are we today? The 1983 increases in the normal retirement age gave partial recognition to the improvements in life expectancy since 1940. These scheduled increases were part of a package of changes adopted to fend off near-term program insolvency. Under the 1983 adjustments, the normal retirement age has gradually increased to age 66 for workers born in 1943 (who will reach age 66 in 2009). The normal retirement age then remains at age 66 for 12 years, before gradually increasing to age 67 for workers born in or after 1960 (who will reach age 67 in 2027 and later). These increases are summarized in the table below.

Year of Birth	**Current Law Social Security Normal Retirement Age**
1943—1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 & older	67

[1] 2011 *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*
http://www.ssa.gov/oact/TR/2011/V_A_demo.html#221776

From today's perspective, however, these 1983 scheduled increases in normal retirement age accounted for only two of the additional six years of life expectancy that we're experiencing today. Additional increases are needed to bring the retirement age in line with the expectations of the program when it was founded.

This is not to say that the 1983 amendments were fundamentally flawed in any way. To the contrary, those amendments, including the bump in normal retirement age from 65 to 67, represented a package of changes that accomplished the objective at that time. But that reform package in no way was designed to maintain a stable proportion of working years to retirement years in the long run, especially in the context of continuing improvements in life expectancy.

Before proceeding with a discussion of where to set future retirement age levels, let me make clear that although the Academy now advocates for inclusion of retirement age in efforts to restore Social Security's long-term actuarial balance, we do not advocate for any one proposal or approach. Nor do we intend for an increase in the retirement age to be seen as a solution that will address the entire imbalance in the system. It is but one component, though a necessary one, of restoring Social Security's long-term financial health.

Some approaches for increasing the Social Security normal retirement age include the following:

<u>Increases to the normal retirement age</u>—There are various ways to increase the retirement age. The Social Security Administration's Chief Actuary Steve Goss and his staff have developed eight examples, the most rapid—beginning the increase in the normal retirement age from age 66 to age 67 immediately, followed by increases by one month (in retirement age) every two years (in birth-date years) until the normal retirement age reaches age 70—reduces the long-range actuarial deficit by about a third. A rate of increase more rapid than one month every two years would be necessary to further reduce the long-range deficit.

<u>Pay benefits for the same number of years</u>—The normal retirement age could be indexed so that life expectancy at the normal retirement age remains constant over time. For example, life expectancy at age 65 (weighted between males and females and rounded to the nearest whole year) is now nearly 20 years. Based on expected increases in longevity from the Trustees Report, the normal retirement age would have to increase by about one month every year or two for life expectancy at normal retirement age to remain 20 years. This method would decrease system costs over time, because the payout period for benefits would remain the same while the period over which payroll taxes would be paid would increase. The savings from this change alone would not be sufficient to restore actuarial balance. But indexing the normal retirement age by one month every two years in combination with other changes to the system could restore actuarial balance. Another method of indexing that might make more sense than using a formula (i.e., one month every two years) would be to index retirement age based on demographic trends as they

develop since there is some disagreement among experts on the long-term rate of mortality improvement.

Keep the ratio of retirement years to working years the same—The normal retirement age also could be indexed so that the period from workforce entry age to the normal retirement age increases at the same rate as life expectancy at normal retirement age. This method, which was recommended in 1983 by a majority of the members of the National Commission on Social Security Reform, would increase the normal retirement age a little more slowly than maintaining a constant life expectancy at normal retirement age and, therefore, would reduce program costs to a lesser degree. But by using this method, policymakers may intend that some portion of the increase in life expectancy at normal retirement age may reflect years of unhealthy life during which workers could not continue working and that extra years of life expectancy should be split in some manner between work and retirement.

Adjust the normal retirement age to maintain actuarial balance—If Social Security were restored to actuarial balance by an ad hoc increase to the normal retirement age or by some other change or combination of changes, actuarial balance could be maintained by automatically adjusting the normal retirement age as necessary to achieve this goal. An adjustment of this nature also could be combined with automatic adjustments to the payroll-tax rate or benefit amounts to maintain actuarial balance. Automatic adjustments of this nature have been adopted by other developed countries for their national retirement systems. These issues are discussed in greater depth in the Academy's issue brief, *Automatic Adjustments to Maintain Social Security's Long-Range Actuarial Balance*.

Indexing the PIA formula for longevity—The Bipartisan Policy Center's Debt Reduction Task Force introduced a way to adjust benefits for longevity by decreasing the 90 percent, 32 percent and 15 percent factors used in calculating the primary insurance amount (PIA) as people live longer. The factors would be multiplied by the ratio of life expectancy of someone reaching age 67 in 2018 to the life expectancy of someone reaching age 67 in the fourth year before benefit eligibility. The task force's proposal also would apply to disabled workers at the time of conversion to disabled worker status, with the ratio only applying to the proportion of the benefit earned while not disabled.

Finally, it is important to remember there are ways to lessen the impact on working Americans and certain segments of the workforce who could be inequitably affected by any increase in the Social Security retirement age:

- Gradually phase in any change over an extended period of years, even decades, to accommodate the changes in retirement behavior that would be needed to make the policy successful—a longer phase-in period would allow for more time for society to adapt to the new work-life reality.

- Disparate distribution of longevity gains across the population—with wealthier socioeconomic groups recently showing more longevity improvements than poorer socioeconomic groups—could be addressed by modifying the progressivity of the benefit formula in conjunction with retirement age changes.

- Difficulty in continuing to work in occupations that involve physical labor could be addressed by additional occupational bridge pensions, perhaps combined with revisions to existing disability programs.

- Greater difficulties that older workers sometimes face in finding jobs could be addressed by policies to facilitate employment at older ages (such as reductions to the payroll tax at older ages)

There will have to be considerable deliberation over the public policy considerations that go into a solvency reform package. In the end, proposals for solving Social Security's financial problems must be judged by how well they use the available revenues to fulfill the system's purpose—to provide a basic level of retirement income for all American workers.

CPI – Part of the problem? Or Part of the solution?

And now, I would like to spend the remainder of my time addressing another area that has been called into question because of concerns about overmeasuring or undermeasuring certain parts of the population in the economy. While controversy around issues pertaining to the consumer price index (CPI) methodology is not new, it of course becomes especially acute during economic downturns because of its relationship with the annual cost of living allowance (COLA) for Social Security. While the appropriate methodology resides in the field of economics, as an actuary I can provide some high-level observations as to how modifications to the automatic annual COLAs cold affect the program.

There are currently several variations on what is commonly understood as the CPI that is applied to the COLA calculation, which has been dubbed CPI-W and reflects price increases for urban wage earners and clerical workers, about 32 percent of the population.

The alternatives include: CPI-E, consumer price index for elderly consumers, designed to reflect the different consumption patterns of consumers age 62 and older; CPI-U, which reflects the consumption pattern of all urban consumers, about 87 percent of the population; C-CPI-U, which is a second version of the CPI-U based on a "chain-weighted" formula that reflects changes in the distribution of consumer purchases among 211 broad categories (strata) of goods and services on a month by month basis; and what is called the Superlative CPI, which takes into account the tendency for consumers to substitute products whose prices have increased more slowly for those whose prices have increased more rapidly even among unrelated categories of goods and services.

To briefly sum up some key actuarial implications with these variations, my focus, of course is on the overall solvency impact.

Adjusting the CPI downward would improve the financial condition of the OASDI program.

For instance the current CPI-W has an historical average annual rate of 4.4 percent for the period 1969—2009. The Superlative CPI is projected to lower the annual increase in CPI by an estimated 0.3 percent. Generally, the rate of increase in the CPI-U has been very close to the increase in the CPI-W and for the future we do not expect any significant difference in the average annual increase based on difference in consumption of these two groups. Tracking of the chain-weighted version of CPI-U, C-CPI-U, has illustrated an increase of about 0.3 percentage point less than the CPI-U per year on average over the period it has been computed, and we expect this difference will continue into the future. Based on the data available for the CPI-E, it is estimated that over the long-term it will tend to increase at an average annual rate that is about 0.2 percentage point higher than for the broader indexes.

If Social Security benefits increased by 0.5 percent per year less than under the current program, the cumulative reduction would be about 5 percent after 10 years, and almost 10 percent after 20 years. This change would eliminate about 40 percent of Social Security's 75-year deficit according to a 2009 study done by the Social Security Office of the Chief Actuary[2].

Conclusion
In closing, I again thank you for the opportunity to present some actuarial ideas to you today on these critical issues facing Social Security. There is no magic solution to the impending solvency challenges facing Social Security. And, certainly, no solution to adequately address the looming issue is going to be easy, simple, and without affecting beneficiaries, workers, or both. But by beginning this process sooner rather than later—when it is too late to employ measures aimed at mitigating those effects—we can ensure that the system lives on to provide the retirement safety net that it has provided for generations and for the generations to come. Thank you, and I would be happy to answer any questions you might have at the appropriate time.

# # #

[2] http://www.actuary.org/pdf/socialsecurity/Social_Security_Reform_Issue_Brief_6-15-10.pdf

Appendix

Year (age 65)	Male	Female
1940	12.7	14.7
1950	13.1	16.2
1960	13.2	17.4
1970	13.8	18.5
1980	14.7	18.8
1990	16.0	19.3
2000	17.5	20.0
2010	18.6	20.7
2035	20.3	22.3
2060	21.7	23.6
2085	22.9	24.8

Source: 2011 *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*
http://www.ssa.gov/oact/TR/2011/V_A_demo.html#221776

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September 29, 2011

The Honorable Sam Johnson
Chairman, Subcommittee on Social Security
Committee on Ways and Means
Washington, DC, 20515

Dear Chairman Johnson:

Thank you again for the opportunity to testify on July 8 of this year on Social Security Finances. The following are responses to follow-up questions you submitted to me.

1. *In your testimony you discuss raising the retirement age and you refer to people in their late 50s, 60s, and 70s as "becoming the largest underused pool of resources in the economy". What approaches do you support to address this concern of yours? How do you think we should address the problem of those who may be physically unable to delay their retirement?*

   You have asked about my statement that people in their 50s, 60s, and 70s are "becoming the largest underused pool of resources in the economy." These conclusions derive from the enormous share of the population in these age groups, their higher level of education in recent times, their reporting of good or excellent health in most cases (see the Health and Retirement Survey[1])—with only moderate differences from the 50s to the 70s—and from the flip side of the coin, the ending of the large labor force influx from women and baby boomers in the last half of the 20th century. The approaches I would use to encourage taking advantage of their talents largely involve removing obstacles to their employment. These include

   a. No longer telling people they are "old" at age 62, which the government does by definition of Old Age and Survivors Insurance;

   b. Increasing the retirement age, especially in line with life expectancy;

   c. Finding alternatives to those features of defined benefit plans that encourage people to retire quite early (through the accrual of negative pension benefits for working another year);

d. Removal of Medicare as a secondary payer (which effectively acts like a tax on employers and employees for keeping or hiring older workers), regardless of the Medicare eligibility age;

e. Offering simpler options within Social Security for partial rather than complete draw down of benefits (effectively also creating simpler options for getting higher annuity protection in old age)[2]; and

f. Offering alternative ways, other than complete retirement, for older workers to stay at work, perhaps at lower rates of compensation; in particular, seniority pay scales are badly designed for the modern age and lead employers to drop employees unnecessarily.

Put another way, I have predicted for some time now that the demand for these older workers will be there. Social Security projections of labor force participation have been rising continually in lines with this prediction, and the obstacles to their employment are often those we ourselves create.

A related issue is addressing the problem of those who may be physically unable to delay their retirement. In truth, given the similar health status reported by those in their 50s, and the prevalence of unemployment in all age groups, I don't believe this is an "age-62" issue. It is an issue of how to design disability and unemployment insurance and other programs designed to meet these needs, which, as I say, don't really change much suddenly at age 62. Put another way, it's very expensive to provide 9 people with more years of retirement (or higher benefits if they delay retirement) in order to help 1 person who may not be able to tap into disability or other programs for help.

Let me add that maintaining some sort of health insurance option for older workers is important here, as it mitigates the health insurance problem for those whose incomes fall for whatever reason.

One additional thing we could do, of course, would be to offer those with significant impairments, but not eligibility for Disability Insurance, an option to retire at age 62 even though others could not use that option. I also favor a higher benefit for long-term workers, who don't get credit for more than 35 years within Social Security. I also favor a much stronger minimum benefit for other workers so that we remove many more elderly from poverty and near poverty.

At the end of the day, however, I still worry about the incomes of those many people today retiring in their early 60s who do not realize that their income now is likely to be insufficient in their late 80s or even 90s. This worry would be present even if the current system were in complete balance.

2. *In your written testimony, you note how certain individuals are treated under Social Security and how this would be illegal in the private pension system. What changes could be made to ameliorate this concern? Would Dr. Schieber's proposal address some of your concerns?*

Many anomalies in Social Security's treatment of the family derive from the design of spousal and survivor benefits that discriminate against single workers, particularly heads of household, two-earner couples with roughly equal earnings, divorcees with less than ten years of marriage. I would support efforts to beef up protections at the bottom—which is really what redistribute benefits are supposed to do—while ratcheting down the extra redistributive benefits at the top. I thus would accompany Dr. Schieber's suggestion for adopting the normal form of annuity, as in private pensions, with additional protections at the bottom. One way to achieve this is gradually to apply an actuarial calculation at the top (e.g., freeze or gradually ratchet down the extra benefits over and above actuarially fair spousal and survivor benefits, while at the same time granting wage-indexed minimum protections, include extra protections for spouses and survivors where the actuarial adjustments might leave them with benefits well below median levels of protection.

3. *In your testimony you discussed the varying amount of benefits a woman might receive depending on whether she is married and how much her spouse earns. The current program is not doing a good job of rewarding women who contribute to Social Security through their hard earned wages. What types of changes could address the anti-working spouse effect that you discussed?*

The reforms discussed in my answer to question 2 would help solve this problem. I would also re-examine proposals for earnings sharing, but I believe that the important side of such proposals in the past was not addressed: how to properly redistribute the money. That is, those proposals only achieve modest gains against poverty if they simply provide higher worker benefits, since worker benefits tend to be more oriented toward the higher-earning males. Instead, the monies generated through earnings sharing would need to help support much stronger minimum benefits for both worker, and worker and spouse, and might also require some rejiggering of the benefit formula to insure adequate progressivity was maintained or enhanced.

The point I am trying to make is that one must adopt several changes to both provide fairer treatment of singles and couples with relatively equal earnings and to provide greater protection against poverty and near-poverty.

4. *How would you design a fairer benefit between a non-working spouse and working spouses?*

The proposals discussed under items 3 and 4 would also create a fairer benefit.

5. *In your testimony you supported slowing the growth of benefits for middle and higher income beneficiaries. What is the best way to do this?*

My suggestion for slowing down the rate of growth of benefits for middle- and higher-income beneficiaries follows my concern for establishing balance in the system. Given any particular tax to pay for the system, I would first work on trying to increase work and employment, partly through retirement age changes (thus redistributing more benefits to older ages, as well). I would back this up with various types of minimum benefit supports. If greater work is encouraged, then annual benefits may not need to fall at all. Over and above any retirement age adjustment, I would still consider other alternatives.

In my testimony, for instance, I suggested that Congress consider a cap of $1 million on lifetime Social Security and Medicare benefits per couple (adjusted for singles and with some different caps for two-earner and one-earner couples). The cap would apply only as long as Social Security and Medicare were not in long-term balance, although this requires some rule for including Medicare expenses beyond Part A, Hospital Insurance. The Medicare cap, by the way, would be based simply on some figure like current average insurance value times expected number of years of support, not on actually health expenses paid.

Progressive wage indexing should also be considered, though I consider retirement age adjustments and the simple cap just suggested as providing somewhat better protection, especially in very old age, for most workers.

Thank you for the opportunity to respond to the very important issues raised in these questions.

Sincerely,

C. Eugene Steuerle

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[1] http://www.nia.nih.gov/NR/rdonlyres/D164FE6C-C6E0-4E78-B27F-7F8D8C0FFEE5/0/HRS_Text_WEB.pdf, p.23.

[2] See http://www.urban.org/UploadedPDF/901355-now-social-security-06302010.pdf.

Charles P. Blahous

August 24, 2011

ATTN: Kim Hildred
Staff Director
Subcommittee on Social Security
Committee on Ways and Means
U.S. House of Representatives
B-317 Rayburn House Office Building
Washington, D.C. 20515

Questions for the Record
July 8, 2011 Hearing
Answers of Charles Blahous

1. How do we keep the benefit structure simple in a way that is fair but also helps boost job and economic growth over time?

Significant problems with the current Social Security benefit structure are that it is opaque and offers uncertain returns on taxpaying work. Workers are encouraged to believe that their payroll taxes are generating "earned benefits" while at the same time the Social Security system is aggressively redistributing income -- from younger generations to older ones, from high- to low-wage workers, from single earners to married couples, and in various other ways. Further complicating matters is the fundamental imbalance between aggregate scheduled benefits and the amount that can be financed from current-law taxes, with workers and employers not yet knowing how this shortfall will be resolved. None of this is conducive to facilitating economic growth.

I will begin my answer by describing optional approaches from a purely theoretical perspective before offering suggestions that might have more practical utility. In a theoretical sense, the simplest benefit structure might be one in which current broad trends of income distribution are made transparent. The current 12.4% payroll tax could be divided into three parts of roughly equal size. Roughly one-third of the tax would earn no benefits whatsoever, representing the proportion of worker taxes redistributed to older generations under current law. Another third could provide benefits equal to that portion of the tax times a Treasury bond interest rate, and could be financed either through the traditional Trust Fund or through a personal account (either is possible, as this portion would involve no direct income redistribution). The last third could provide a redistributive, safety-net benefit, offering above-market returns for low-earners and zero returns for maximum-wage earners. Such a hypothetical system would be distributionally very similar to our current one but would be much more transparent in its presentation.

Some Social Security reformers have suggested simplifying the system by splitting the benefit and tax structures instead into two components: one that provides an equal safety-net benefit to all participants, the other component being a savings account in which benefit levels are solely a function of individual contributions (i.e., there is no income redistribution). These proposals are also intended to roughly replicate the current system's progressivity, clarifying work incentives and fostering economic growth by facilitating saving. One example of this approach is the Schieber-Weaver proposal of the 1994-96 Social Security Advisory Council. Andrew Biggs of AEI has offered proposals that are conceptually similar.

Such fundamental reforms might be more than can be agreed to at this time on a bipartisan basis. But as a general rule, job creation and economic growth will be facilitated to the extent that the growth of costs facing workers and employers is constrained. This can theoretically be accomplished either by changing the benefit formula to grow more slowly than wage inflation, or by advance-funding a portion of future benefits through savings accounts, or by some combination of the two. If legislation is enacted soon, benefits can continue to grow more rapidly than price inflation for workers at all wage levels and in all birth cohorts, with or without changing the current system's financing mechanism.

Policy makers face a difficult choice between designing the benefit formula to optimize labor force participation or to offer greater income protections to low-wage individuals. The more progressive the benefit formula, the lower the incremental returns to workers on their tax contributions (to a first approximation). One possible way to minimize this dilemma is to redesign the benefit formula to offer benefits based on each individual year of work rather than on a career average. This would offset some of the income redistribution in the current system that takes from steady low-wage workers and gives to intermittent high-wage workers.

2. What are the options for changing the Actuarial Reduction Factors or Delayed Retirement Credits? How can we reward workers who work longer and encourage others to do the same?

The current ARF reduces annual benefits by 20% if an individual claims three years before Normal Retirement Age (NRA). The DRC increases benefits by 8% for each year (up to three) that an individual claims after NRA. If these figures were increased to 25% and 10% respectively, they might more closely reflect the extent to which individuals who delay claims and remain in the workforce continue to contribute payroll taxes, and thus act as an improved work incentive.

Some analysts have suggested that the DRC might be more attractive to individual workers if they had the option of taking it as a considerable lump sum, instead of only as an incremental addition to monthly benefit levels.

One potentially attractive way to better reward work would be to redesign Social Security's benefit formula so that it applies to each individual year of earnings rather than to a career average. Under current law, it is generally true that the longer one works, the more one's "career average earnings" rises, and the lower one's incremental returns under Social Security's progressive benefit formula. But if the formula were redesigned to accrue benefits based on each additional year of contributions (while still remaining just as progressive), incremental returns would not drop in this way and work incentives would be preserved.

Other policies worth considering to improve work incentives are to restrain the future growth of the non-working spouse benefit, and to provide some payroll tax relief for seniors who have already contributed payroll taxes for 45 years or more.

3. Under current law, Social Security benefits may be reduced for State and local public workers who receive a pension from work not covered by Social Security. This benefit offset is known as the Windfall Elimination Provision. Would your idea to apply the benefit formula to individual years of earnings have the additional effect of reducing the need for the windfall elimination provision, since years without earnings would not be included in the benefit calculation?

Yes, this would be an additional advantage of such reform.

4. In your testimony, you discussed raising the retirement age, can you tell us more about the approaches you support and how you think we should address the problem of those who may be physically unable to delay their retirement?

I would recommend that physical incapacity in middle age be dealt with through Social Security's disability program, which is better designed for that purpose. The Old-Age and Survivors program is not designed to deal with variable individual physical incapacity, but rather to define a broadly-applicable concept of "old age" that is appropriate for most individuals in the society that it serves.

By any measure, Americans are living much longer than when Social Security was first established. Period life expectancy at birth has grown by over fourteen years for both men and women, whereas period life expectancy at age 65 has grown on average by more than six years.

Due to subsequent relaxations in benefit eligibility requirements, however, Americans are claiming Social Security's "old-age" benefits at younger ages than at Social Security's inception. The primary reason for this is the establishment of Early Eligibility Age (EEA), now 62. The establishment of EEA in combination with assorted benefit increases since the program's creation together mean that Americans generally now claim benefits earlier, receive higher annual payments (even in a relative sense), and live substantially longer. This is not sustainable within current tax rates.

If the EEA and NRA were each gradually increased by three years from their current levels, the age of earliest claim would again be where it was at Social Security's inception. From that point, policy makers could then decide how much of longevity gains to date should be reflected in further changes to the eligibility ages.

5. Due to limited time, you were unable to provide your comments on the chained CPI as an alternative to the current COLA calculation index. What are your views on the chained CPI?

I believe that the selection of an inflation index should be based on our best estimate of overall inflation as opposed to distributional goals for benefits. The chained CPI has an advantage over the current CPI-W and CPI-U in that it accounts for upper-level substitution bias – that is, consumer purchasing substitutions across spending categories as prices rise – whereas the other two measures do not.

The statutory intent of inflation-indexation is to adjust for value relative to general price inflation faced by consumers. If it is judged that Social Security benefits are too low, either generally or with respect to specific populations, the appropriate means for handling this is by adjusting the benefit formula and collecting additional taxes as necessary. By contrast, it would contort the purpose of CPI-indexation to achieve these goals through the continued use of an index that overstates general price inflation.

I would most strongly recommend against the adoption of CPI-E (the new experimental index for the elderly) to index Social Security benefits. Many Social Security beneficiaries are not elderly; it would make no policy sense to use CPI-E to index benefits for dependent children or for the young disabled. It would also add undesirable complexity and confusion for one index to be used for some beneficiaries and another for others, which would require changes in the applicable index as individuals move between beneficiary categories (for example, when a disabled beneficiary converts to retirement benefits).

6. In your testimony you supported slowing the growth of benefits for middle and higher income beneficiaries. What is the best way to do this?

The most precise way of targeting the benefit effects of such a change is to directly change the numbers in the benefit formula to produce the desired results. Many proposals would gradually reduce the formula's 32% and 15% bend point factors over a period of some decades until the preferred formula is reached. I have in the past developed proposals that would establish a new bend point at 175% of the first current-law bend point, and gradually reduce the 32% and 15% bend point factors above that point (while retaining the full 90% and 32% factors below it). Proposals from Simpson-Bowles, Liebman-MacGuineas-Samwick and Kolbe-Boyd have all included similar provisions, but with differences in the individual formulas.

The "right" place to set a new bend point, and the "right" eventual modifications to the 32% and 15% factors are a function of several considerations, most especially the degree to which a comprehensive proposal relies upon such changes to attain financial sustainability.

Whatever ultimate formula is decided upon, I would recommend that it be phased in as rapidly as is practicable. The vast majority of cost growth relative to the tax base under current law would occur by 2035, such that any changes postponed until after then will reduce benefits for future generations without doing much to ameliorate the projected peak level of worker tax burdens. Ideally, the new formula would be fully phased in by 2040, and no later than 2050.

An alternative approach to prescribed bend point factor changes is known as progressive indexing. Under this approach, automatic adjustments are made to the upper bend point factors so that benefits for low-wage workers grow with wage inflation, maximum-wage worker benefits grow with price inflation, and others in between receive benefits that are determined by a sliding-scale formula that blends the two.

7. In your testimony you encourage acting sooner rather than later to give beneficiaries time to plan. What are the differences between the challenges Social Security is facing today versus the challenges it faced in 1983? What are the consequences of waiting until the system faces insolvency as it did in 1983?

The long-range (75-year) Social Security shortfall is already larger than the one addressed by the 1983 reforms, and is now measured at 2.22% of taxable payroll over the next 75 years under current methods. This however understates the substantial degree to which today's long-range deficit is larger, because the trustees' actuarial methods were changed in the 1988 trustees' report. If calculated by 1983 methods, today's long-range deficit is already more than 50% larger in relative terms.

There are critical differences, however, with respect to both the immediacy of the problem and the consequences of delay. In 1983, legislators faced an immediate solvency crisis in that Social Security's trust funds were on the verge of depletion within months. This is not the case today, but in another sense the need for action is even more urgent; in the early 1980s, the ratio of taxpaying workers to collecting beneficiaries was relatively stable, such that temporary delays in resolving the system's shortfall could be patched over with short-term measures and without untenable opportunity costs. Today, however, each year of delay means that millions of additional baby boomers will be on the rolls, with legislators powerfully reluctant to change their benefits.

For a time yet to come, delay in resolving Social Security's shortfall is likely to mean that the eventual solution relies more heavily on tax increases. If benefit reductions for those in or on the verge of retirement are to be avoided, and if future real declines in benefit levels are also to be avoided, legislative action must occur within the next few years to avoid a substantial tax increase. Moreover, after these next few years the size of tax increases required to avoid these adverse benefit effects will grow substantially larger.

After a certain point, however, the likely effect of further delay is that Social Security cannot survive as a self-financing program. In that scenario, benefit payments would eventually lose certain protections that they enjoy under the current financing structure. By the early 2030s, for example, even the short-term actions required to sustain self-financing would need to improve annual system operations by over 3% of taxable payroll, a level of immediately-felt austerity several times larger than the short-term effects of the 1983 reforms. Once this point is reached, and it is impossible to know exactly when that will be, it is highly unlikely that Social Security finances can be corrected in a way that preserves the program's historic financing structure.

Barbara Bovbjerg

Barbara D. Bovbjerg Comments for the Record

July 8, 2011 Hearing

Subcommittee on Social Security

Committee on Ways and Means

House of Representatives

Q: To complete the record for the July 8th hearing on Social Security's finances, Chairman Johnson asked GAO to discuss changes to the statement that the Social Security Administration should consider to better help younger workers understand what their benefits might be and how to plan for their futures.

A: Before the Social Security Administration (SSA) suspended the statement mailings this past March, SSA provided annual statements to eligible workers age 25 and over. Although the agency provided the same version to all recipients of the statement, in recent years, SSA has taken steps to ensure that younger workers receive age-specific information with the statement.[1] Specifically, since 2009, SSA has included an insert with the statement for workers ages 25-35 titled "What young workers should know about Social Security and saving." This insert provides information on the future of Social Security, the role of Social Security benefits in retirement, the importance of independently saving and investing, and other Social Security benefits. As a result, this insert provides key information on Social Security to younger workers that can help them understand available benefits and plan for their futures. This insert is also consistent with practices we reported on in our 2005 report on the statement's understandability. For example, officials from both consulting firms and other countries told us that workers are more likely to read and remember information that is relevant to them, and because of this, the United Kingdom reported sending messages to younger workers emphasizing the importance of starting to save for their retirement early in their careers.

While including the insert for younger workers with the statement was a step towards providing this group with age-appropriate Social Security information, the statement has not been mailed to anyone for the past few months, and SSA is in the process of considering moving to an online statement. In my testimony, I concluded that providing the statement online holds real promise as a way of distributing this information, as it can both meet the electronic demands of an increasingly Internet-literate population while providing flexibility for improved statement design. Although a prototype of the online statement was not available at the time of our review, officials told us that the first version of the online statement will be as similar to the most recently mailed statement as possible, and the same content that was available on the inserts will be made available online. If SSA moves forward with this approach, it will be important for the

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[1] SSA has also taken steps to ensure that workers nearing retirement receive age-specific information. Since 2000, the agency has included an insert titled "Thinking of retiring?" with the statement for workers age 55 and older.

agency to (1) ensure the information that was previously provided on the insert for younger workers is clear and easy to access in the online statement, and (2) continue to consider our 2005 recommendations on ways to improve statement design, such as using graphics to aid readers in quickly comprehending information and placing all personalized benefit information at the front of the statement. Ensuring that the statement is accessible and easy to understand is important, as it is the federal government's main document for communicating with workers about Social Security benefits, the long-term financial challenges the system faces, and the implications of any future reforms of the system.

Finally, as I noted in my testimony, SSA did not have plans in place for publicizing the online statement at the time of our review. Given that the agency's own survey of statement recipients found that only one-fifth of respondents would prefer to receive an electronic statement if it was made available, SSA will likely need to employ a substantial public relations strategy to ensure workers are made aware of and encouraged to access the online statement. Although making the statement available online may be a way to easily provide this information to Internet-literate younger workers, SSA will need to focus efforts on publicizing the statement's importance for younger workers to encourage them to access this information. Because of the high proportion of young adults who regularly use the Internet for various activities, it might be assumed that younger workers would be the group most likely to access an online statement. However, a 2010 survey of adults by the Pew Internet and American Life Project found that only one-third of Internet users ages 18-33 reported accessing financial information online, and only about 60 percent had visited a government website. In contrast, a larger proportion of older Internet users ages 34-64 reported going online for these reasons.

MEMBERS SUBMISSION FOR THE RECORD

Mr. Xavier Becerra

Opening Statement of Social Security Subcommittee Ranking Member Xavier Becerra

Social Security Subcommittee Hearing on Solvency and Benefit Payments

Committee on Ways and Means
July 8, 2011

Today's hearing illustrates a basic question of right and wrong. Social Security has never contributed a dime to the nation's $14.3 trillion debt...not one penny to our federal budget deficit this year or any year in our nation's history. Yet some in this town insist that we should cut Social Security benefits for seniors to pay for these deficits... deficits run up over the last ten years principally as a consequence of fighting two unpaid-for wars and giving unpaid-for tax cuts to millionaires. Most Americans would say it is immoral and un-American to ask Congress to tax Peter to pay for Paul's sins – to make retirees, widows, disabled workers, and children who rely on Social Security to pay for the Bush debt. How can that be right?

Here's the simple truth. Today, Social Security has over $2.6 trillion in its Trust Fund, entirely generated by worker contributions. Over its lifetime, Social Security has earned $14.6 trillion and only spent $12.0 trillion. Do the math.

As a result, Social Security has enough income and reserves to pay full benefits to our seniors for the next quarter century and about three-fourths of benefits after that. Social Security is not "broke" and it will not go bankrupt. That's because, unlike the federal operating budget, Social Security cannot deficit spend. Nor will it ever face its own "debt-ceiling crisis."

Our challenge is to address a manageable shortfall in Social Security after 2036. The size of that shortfall is about the same size as the cost of keeping in place the Bush tax cuts for just the wealthiest two percent of American taxpayers. Preserving Social Security for the future is simply a matter of priorities – a matter of right and wrong.

What is wrong is cutting Social Security benefits for people who worked hard all their lives to earn benefits for themselves and their families. It's especially wrong if you are cutting their Social Security in order to pay for tax cuts for millionaires. Social Security benefits are very modest, and most seniors have limited incomes. The average benefit for a retiree is $14,000 a year. Six out of ten seniors rely on Social Security for more than half their income and nearly a third have virtually nothing else to count on. As people get older and begin to outlive their other retirement savings, they begin to rely increasingly on their Social Security paycheck.

The benefit cuts Republicans have put on the table this year would have devastating consequences for today's seniors and for the 155 million future beneficiaries who are paying in to Social Security today.

In our last hearing, we learned from Social Security's Chief Actuary that under the Social Security privatization bill (H.R. 2109) introduced by Congressman Pete Sessions and other members of the House Republican leadership, Social Security's ability to pay benefits to current beneficiaries would be "severely compromised." If we enacted the Republican bill, current seniors might not get the monthly checks they earned through a lifetime of work.

In addition, the Chairman of the House Budget Committee, Republican Paul Ryan, has a plan to privatize Social Security, to raise the retirement age, and to cut benefits for the middle class. And House Republicans recently voted to create a special "fast-track" process for Social Security cuts.

It doesn't end there. The Republican Study Committee, which represents about three-fourths of my colleagues on the Republican side, including Majority Leader Eric Cantor, has proposed raising the retirement age to age 70, with benefit cuts starting in just three years (2014), at a time when Social Security will have $3.0 trillion in its Trust Fund.

Mr. Chairman, I am grateful that we are holding a hearing on Social Security benefits. We need to have a comprehensive discussion on all of the options available to us to strengthen Social Security. Where you stand on Social Security and where you fall on the ways to strengthen it will speak volumes about your priorities for our country and for the generation that built the America we love so much.

[Submissions for the record follows:]

Consumers for Paper Options, Statement

Why the Annual Social Security Earnings Statement Should be Re-instated
By John C. Runyan, Executive Director
Consumers for Paper Options

Submitted to the Social Security Subcommittee
House Ways and Means Committee
July 8, 2011 Hearing on Social Security Finances

On behalf of Consumers for Paper Options, I am pleased to submit the attached statement for the record for the July 8, 2011 subcommittee hearing regarding the Social Security Administration's finances. In particular, I would like to focus attention on the SSA's termination of the annual Social Security Earnings Statement.

About Consumers for Paper Options
Consumers for Paper Options (www.paperoptions.org) is a new coalition of individuals and organizations who believe paper-based communications are critically important for millions of Americans, especially those who are not yet part of the digital revolution. While regulated entities and governments at every level need to streamline services, cut costs and improve efficiencies, preserving paper based options for information and essential services for those who need or want them should remain a crucial priority. Our goal is to preserve access to information in a way that neither hinders the natural evolution of technology nor discriminates against those who may not or cannot use it. Getting this policy right would be a positive and empowering way to bridge the digital divide and achieve important efficiency improvements while avoiding shifting extra cost burdens to consumers who can least afford them.

The Social Security Earnings Statement is an Important Tool
SSA began mailing annual earnings statements to all workers age 25 and older on Oct. 1, 1999. The statements were intended to educate workers about their benefits, allow employees the opportunity to review the accuracy of their earnings record, and be a financial planning tool to help individuals make retirement decisions. The statements also give a concise overview of the program and allow you to check your recorded earnings and taxes paid for errors.

This April, in an effort to reduce expenses, the SSA announced it would end the mailing of the annual Social Security Earnings statement for all workers over age 25. Once workers reach the age of 60, they will begin to receive the statement once again.

The SSA's elimination of the mailed annual earnings statement is more than an inconvenience. It means wage earners will no longer have a way of confirming the accuracy of the government's figures that are used to calculate Social Security benefits. The statement is also an important financial planning tool for millions of Americans as they make insurance, retirement and financial planning decisions. This loss comes just as the ranks of retiring American workers are exploding. An online version supposedly will replace the statement, yet it will not be as complete, nor will it be accessible to those without internet connections or the ability to use the internet. The only way to get all the information contained in the former statements will be to pay a fee as high as $80 and go through a difficult bureaucratic process.

Congress is Reviewing
Members of Congress have begun to consider the impact of the elimination of the annual earnings statement and have begun to speak out in favor of its return.

Senator Bill Nelson, in a letter cosigned by a number of his colleagues said that, "discontinuing the annual Social Security statement needlessly eliminates a critical source of information for Americans as they make insurance, financial, and retirement planning decisions. The statement is an important reference document for three key reasons: (1) it gives workers a critical tool for understanding their Social Security benefits, (2) it lists important points of contact within the Social Security Administration, and (3) it encourages workers to make sure their future benefits are not reduced or impaired by erroneous agency records when they reach retirement age."

Sen. Ben Cardin, another members of the Senate Finance Committee said in a letter to SSA Commissioner Astrue that, "the annual earnings statement is an invaluable tool to help Americans plan for retirement."

The GAO Testifies on the Importance of Maintaining the Annual Earnings Statement
In a recent testimony before the House Ways and Means Subcommittee on Social Security, the Government Accountability Office (GAO) described the annual earnings statement as a "key financial literacy tool that can educate the public about SSA program benefits, aid in financial planning, and ensure that workers' earnings records are complete and accurate." The report went on to say: "The Commissioner of SSA should take steps to ensure access to the statement for all eligible workers, including those without Internet access or English proficiency. Doing so will assure that the statement remains an important tool for communicating with all workers about the Social Security program." (GAO-11-78T, July 8, 2011)

The GAO testified that "because the decision to suspend [mailing the statements] was made relatively abruptly, the agency faces pressure to take quick action that will restore public access to the statements. As a result," said Barbara D. Bovbjerg, GAO's managing director of Education, Workforce and Income Security, "officials currently are not in a position to fully redesign the statement to improve its usefulness and clarity."

Furthermore, SSA has not yet considered how they will reach those who cannot or will not obtain the statement online, though at least some people will not be able to read statements provided only in English," she added.

Limitations of the Online Estimator
Workers can get an estimate of their retirement benefits online using SSA's retirement estimator tool. But this tool does not provide all the information that appears in the written statement, such as estimates of disability and survivor's benefits and your complete earnings record. The online estimator also raises cyber security concerns since a citizen has to enter his or her Social Security

number to gain access to the system. The SSA has acknowledged the concerns and is hiring a contractor to address security issues.

Key Issues at Stake

Although the Social Security Administration says it plans to provide some kind of replacement information online, there are several issues at stake.

1. Those without computer access or knowledge will be denied critical information. They will be unable to confirm the accuracy of the government's record of their earnings history.
2. While the SSA has not yet finalized its plans, reports indicate that the SS statements provided online will not be as extensive as the current paper copies. This diminishes the value of the statement as an important financial planning tool.
3. Since the process is still in development, a timeline is not set; there is no certainty about when the statements will be available, how they will be accessed, or how the public will be advised of these changes.
4. Security and confidentiality of information continues to be a concern. Asking people to enter their Social Security number online (as the current online site does) raises a host of issues around cyber security and identity theft and will likely impede the site's use.
5. Access to the complete information now available in paper statements will be available online only by going through a difficult bureaucratic process and paying a fee as high as $80.

A Paper Statement is Often the "Best Option"

The GAO pointed out that people who cannot read English or are elderly may likely be lower earners who can least afford to be uninformed about their benefits. "The statement is SSA's best option for communicating this important information and, as such, deserves to occupy a position of higher priority in SSA planning and decision making."

As government agencies work to reduce costs, they should avoid believing that going "paperless" is always an appropriate solution. It is often critically important that government service providers continue to enable citizens from key demographic groups to access paper-based information. While online access continues to grow, not all segments of society have equally adapted to the digital age.

SSA Should Reinstate the Annual Earnings Statement

We urge you to support reinstating the annual earnings statement as quickly as possible. The statement is a valuable planning tool for American wage earners and provides them with essential information as they prepare for retirement. With average Americans now expecting to change jobs 7-10 times in their lifetime, it is critical they be given a chance to check the earnings being recorded by SSA as these changes are made. The earnings statement is especially important for those millions of our citizens who do not own a computer or have reliable access to the internet. Federal government policy should recognize that when cost reductions for key government information and services are contemplated, a process should be undertaken that accounts for how citizens without access or knowledge of online information services will continue to be served.

Consumers for Paper Options appreciates this opportunity to submit testimony on this important issue and we stand ready to work with the Committee as it works to make sure all our citizens continue to receive important information and services from the federal government.

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