2000 SOCIAL SECURITY TRUSTEES' ANNUAL REPORT

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

APRIL 6, 2000

Serial 106–37

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE
66–258 CC WASHINGTON : 2000

COMMITTEE ON WAYS AND MEANS

BILL ARCHER, Texas, *Chairman*

PHILIP M. CRANE, Illinois
BILL THOMAS, California
E. CLAY SHAW, JR., Florida
NANCY L. JOHNSON, Connecticut
AMO HOUGHTON, New York
WALLY HERGER, California
JIM MCCRERY, Louisiana
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
JIM NUSSLE, Iowa
SAM JOHNSON, Texas
JENNIFER DUNN, Washington
MAC COLLINS, Georgia
ROB PORTMAN, Ohio
PHILIP S. ENGLISH, Pennsylvania
WES WATKINS, Oklahoma
J.D. HAYWORTH, Arizona
JERRY WELLER, Illinois
KENNY HULSHOF, Missouri
SCOTT MCINNIS, Colorado
RON LEWIS, Kentucky
MARK FOLEY, Florida

CHARLES B. RANGEL, New York
FORTNEY PETE STARK, California
ROBERT T. MATSUI, California
WILLIAM J. COYNE, Pennsylvania
SANDER M. LEVIN, Michigan
BENJAMIN L. CARDIN, Maryland
JIM MCDERMOTT, Washington
GERALD D. KLECZKA, Wisconsin
JOHN LEWIS, Georgia
RICHARD E. NEAL, Massachusetts
MICHAEL R. MCNULTY, New York
WILLIAM J. JEFFERSON, Louisiana
JOHN S. TANNER, Tennessee
XAVIER BECERRA, California
KAREN L. THURMAN, Florida
LLOYD DOGGETT, Texas

A.L. SINGLETON, *Chief of Staff*
JANICE MAYS, *Minority Chief Counsel*

SUBCOMMITTEE ON SOCIAL SECURITY

E. CLAY SHAW, JR., Florida, *Chairman*

SAM JOHNSON, Texas
MAC COLLINS, Georgia
ROB PORTMAN, Ohio
J.D. HAYWORTH, Arizona
JERRY WELLER, Illinois
KENNY HULSHOF, Missouri
JIM MCCRERY, Louisiana

ROBERT T. MATSUI, California
SANDER M. LEVIN, Michigan
JOHN S. TANNER, Tennessee
LLOYD DOGGETT, Texas
BENJAMIN L. CARDIN, Maryland

CONTENTS

2000 SOCIAL SECURITY TRUSTEES' ANNUAL REPORT

THURSDAY, APRIL 6, 2000

House of Representatives,
Committee on Ways and Means,
Subcommittee on Social Security,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10 a.m. in room 1100, Longworth House Office Building, Hon. E. Clay Shaw, Jr., (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON SOCIAL SECURITY

FOR IMMEDIATE RELEASE
March 30, 2000
No. SS–14

CONTACT: (202) 225–9263

Shaw Announces Hearing on 2000 Social Security Trustees' Annual Report

Congressman E. Clay Shaw, Jr., (R–FL), Chairman, Subcommittee on Social Security of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing to examine the findings of The 2000 Annual Report of the Board of Trustees on the financial status of the Social Security Trust Funds. The hearing will take place on Thursday, April 6, 2000, in the main hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.

Oral testimony at this hearing will be from invited witnesses only. Witnesses will include the Social Security Public Trustees who helped draft The 2000 Annual Report. Any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

The Social Security Board of Trustees recently released The 2000 Annual Report on the financial status of the Social Security Trust Funds. The Trustees' projections show that Social Security's financial outlook has improved slightly relative to last year's projections.

Based on intermediate assumptions about economic and demographic trends, the Trustees project that Social Security will begin running cash deficits in 2015-one year later than projected in last year's report. The Trust Funds are expected to be depleted by 2037-three years later than projected last year. At that time, annual tax revenues will be sufficient to pay 72 percent of annual expenditures. The improvement in Social Security's financial outlook is mostly attributable to improved economic assumptions and several changes in the methods used by the Trustees to make projections.

Despite the near-term improvement in Social Security's financial status, the Trustees conclude that the Trust Funds are not in "close actuarial balance" over the next 75 years, the traditional measure for the financial soundness of the system. The Trustees repeated their call to make timely changes to the Social Security program so that changes can be phased in and workers can have time to adjust their plans to account for the changes. The Public Trustees noted that ". . .a few good years do not reduce the inherent uncertainty about the future."

In announcing the hearing, Chairman Shaw stated: "While the near-term prognosis for Social Security appears slightly improved, its underlying vital signs remain critical. In fact, the Trustees' Report shows that Social Security's cash flow problem will get worse with each passing year after 2015. We cannot rely on economic growth from one year to the next to change that. Without responsible reforms that save Social Security for 75 years and beyond, this long-run picture will only get worse with each passing year."

FOCUS OF THE HEARING:

The Subcommittee will examine the findings of The 2000 Annual Report of the Board of Trustees on the financial status of the Social Security Trust Funds.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit six (6) single-spaced copies of their statement, along with an IBM compatible 3.5-inch diskette in WordPerfect or MS Word format, with their name, address, and hearing date noted on a label, by the *close of business*, Thursday, April 20, 2000 , to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Social Security office, room B–316 Rayburn House Office Building, by close of business the day before the hearing.

FORMATTING REQUIREMENTS:

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

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

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

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

4. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers where the witness or the designated representative may be reached. This supplemental sheet will not be included in the printed record.

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

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

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

Chairman SHAW. If the hundreds of people in the audience will take their seats, we can get started. Despite the light turnout this morning, this is certainly one of the more important things that we do.

Today's hearings feature the public trustees who help compile the new 2000 Social Security Trustees' Report. Their 5 year service has now come to an end, and we thank them for their outstanding work. Their insights will certainly help us better understand the current and projected condition of the Social Security program.

Most attention this year focuses on the trustees' estimate that the Social Security fund will extend to 2037, that is 3 years beyond the previous estimate of 2034. That is a positive development, but we need to consider some context. Social Security's soundness always has been measured over 75 years, or long enough to span most people's working and retired years. Obviously, paying full benefits for only 37 years falls well short of that standard.

Current retirees need not worry about their benefits. But many workers under the age of 50 and most workers under the age of 40 can expect to see the year 2037. What will their Social Security benefits be? How should they plan their retirement and their savings? Our inability to answer these simple questions is one reason why the trustees again, and I quote, "Urge that the long range deficit of both the OASI and the DI trust fund be addressed in a timely way."

But that is still only half the picture. As the trustees note, in only about 15 years, Social Security will cost more than taxes bring in. After that, we can raise taxes, we can cut benefits, or we can borrow more each year to make up the difference. What will that Congress do? And that difference is very real. In 2015, benefits will exceed taxes by $7 billion. And that is going to widen to a $318 billion gap in the year 2037. That $318 billion, spelled with a B.

In 2037, that will be like shutting down the Department of Defense and sending the money to Social Security. Between these years, we need to find a total of $4 trillion to pay full Social Security benefits. And that is trillion with a T. It is good we are using today's Social Security surpluses to pay down our current debt, which will strengthen our economy for the long run. But no amount of debt repayment or economic growth can substitute for real improvements to make Social Security sound for 75 years and beyond.

For those who see this year's report as cause for delay and inaction, there's one simple fact to remember. We now need to find more than $1 trillion more than last year to pay full Social Security benefits over the next 75 years. In spite of all the rosy headlines, Social Security's long-run deficit increased from $20 trillion to $21 trillion almost without notice.

So the clock is ticking on us. And the price tag of saving Social Security for all generations keeps going up with each year that we delay. We are in good times, we are in times of surplus. Now is the time to act. I would hope that we would take the trustee's report not as necessarily good news, but also while we are happy that the life is being extended, there's also some real warnings out there that all of us need to take note of and to answer.

Mr. Doggett.

Mr. DOGGETT. Thank you very much, Mr. Chairman.

It is really good to have you here with good news, very good news. I believe that you bring us better news, in fact, than any of the Social Security Trustees' Reports in the last 7 years. This is the smallest actuarial deficit and the latest date of trust fund exhaustion that we have had since your report in 1993.

I agree fully with the comments expressed by our Chairman. What we need is thoughtful and deliberate action, but indeed we need action to address the long term problems. At the same time, we need to realize that this is not the kind of emergency or crisis situation demanding inappropriate solutions that some have advocated in the past. I believe that your 2000 trustee simply confirms what some of your prior reports that haven't had quite as good bit of news for us, that the challenges that Social Security faces are significant, but there are ways to manage them.

Consequently, we ought to avoid radical restructuring of Social Security. We ought not to substitute for a system that has been very, very successful, perhaps one of the most successful programs that this Congress has ever initiated, that provides progressive, guaranteed and life-long benefits. We ought not to substitute that proven system with one that junks it and says that every person who retires or becomes disabled is in there to fend solely for themselves, with some kind of individualized, privatized system that destroys what Social Security was all about.

Radically restructuring Social Security would subject the most dependable element of our workers' retirement, the only source of income, at least 90 percent of income, for millions of single, older women in this country. It would subject those people to incredible risks and would impose enormous transition and administrative costs to American workers.

As I'm sure our witnesses have heard, we have heard expert testimony in the Subcommittee previously from one former associate of Jack Kemp that no American living today, indeed, no American living before the year 2025, would actually benefit from junking the current Social Security system and substituting a partially privatized system. We view this 2000 Trustees' Report as being of extreme importance, also because of the message it conveys about economic growth.

To the extent that we can sustain economic growth, as we have had in this unprecedented prosperity of the last few years, to the extent we can continue to heed the advice of Chairman Alan Greenspan, who only recently testified to the Senate Aging Committee about the importance of increasing our national savings and avoiding risky tax cuts in favor of reducing the national debt, that may well be one of the most significant steps that we can take here in Congress to continue to bring more good news from the trustees of Social Security.

We thank you for your participation this morning. Thank you, Mr. Chairman.

Chairman SHAW. Thank you, Mr. Doggett. If I can have the privilege of adding to your remarks, I totally agree with what you said when you stated that we should never junk the existing system and we should not privatize it. The existing system must stay in place, and we need to adopt a middle of the road process by which we can save Social Security without changing in any way the basic structure of the system, the investment within the Social Security system.

I think the President has talked about privatizing or partially privatizing by investing the trust funds in corporate assets. And I would oppose that. I quite agree with Mr. Doggett, we should not privatize the Social Security system when we find that we can do it by a middle of the road approach, by developing a process by which it can be shored up but in no way changed structurally itself.

And with that, I will welcome the first panel, Mr. Kellison, who is a trustee of the Social Security Board of Trustees, and Dr. Moon, who is also a trustee of the Board of Trustees. We welcome both of you. We have the text of your full statement, which will be made a part of the record. And I would invite you to proceed as you might see fit.

STATEMENT OF MARILYN MOON, PH.D., FORMER PUBLIC TRUSTEE, SOCIAL SECURITY AND MEDICARE TRUST FUNDS, BOARD OF TRUSTEES

Ms. MOON. Thank you. When we flipped a coin, I guess I won this morning, to go first. I wanted to reiterate, Mr. Chairman, as you said, that our terms ended when we signed the report on the 30th of March. This is a duty that has been a pleasure to do. We have both learned a great deal, and then I think both of us have been very impressed by the care and objectivity that goes into the discussions about the assumptions that underlie this report.

I believe that it is an extremely important role the public trustees play, to try to be not only there to assure that care and objectivity happens, but to participate fully in that discussion. And it is our hope that new trustees will soon be named, so that they can be a full part of that process for next year's report. That process begins pretty early in the fall in terms of discussions about assumptions.

So we are hopeful to see new people come on board. We also believe that it is important to have new blood and new ideas, because these are very difficult issues to grapple with.

When we think about the trust funds, we note how difficult it is to make 75 year projections. There are many very fine economic forecasters and actuaries out there, but many of them are very nervous about making 75 year projections. But as you've also noted, this is an important thing to do, not only to indicate potential problems, but also to provide assurances to younger persons that the system is intended to go on indefinitely into the future.

We view these trust fund reports as an early warning system, telling us when there are changes that are needed with enough advance warning that rational and reasonable changes can be made. We also note that we believe that there are needs for incremental changes in the assumptions. Very good economic times are sometimes tempting to build into the trust fund projections. But over a 75-year period it is very difficult to sustain some of the good economic news, for example, of 2 or 3 years, just as it probably means when the news is not so good for several years, we shouldn't be unduly pessimistic.

We also note the enormous uncertainty in these reports. We don't believe that they are truth, but as I indicated before, an early warning system to capture our attention appropriately on an annual basis.

As you've also mentioned, the news is considerably better this year for the Social Security trust funds. For the OASDI funds, when combined, the date of exhaustion is now 2037. And the date where costs will exceed revenue is now extended to 2015. It also means that the long term deficit of the trust funds is just 1.89 percent, rather than 2.07 percent. Those are, I think, numbers that underscore the importance of economic growth and what that has meant for the changes in the trust funds.

If you look specifically at OASI, the old age and survivors program, there are more revenues coming in than anticipated in the past because of the good economic news. By 2016, though, costs will exceed tax income, but income and the accumulated assets should last until 2039.

The deficit in OASI is 10 percent less than last year. And again, I would note that although we made important changes in the assumptions, we believe that the changes were made on an incremental basis.

In sum, from my perspective, the good economic news does have an important impact on the trust funds. It does not wipe out the long term concerns that are there. It does give us the time to talk and have a good debate about what the appropriate solutions are, as both you, Mr. Shaw, and Mr. Doggett have noted.

I'm going to leave to my colleague, Mr. Kellison, some of the more graphic details.

STATEMENT OF STEPHEN G. KELLISON, FORMER PUBLIC TRUSTEE, SOCIAL SECURITY AND MEDICARE TRUST FUNDS, BOARD OF TRUSTEES

Mr. KELLISON. Thank you, Marilyn, and thank you, Mr. Chairman and Members of the Subcommittee. It is a real honor and privilege to be able to be with you today to report on the fifth and final Trustees' Report that Dr. Moon and I have participated in.

Picking up where Dr. Moon left off, I would like to add a couple of comments on the disability, DI program. It is a program that hasn't received a lot of discussion in the last 2 or 3 years. But it does have the earliest date of exhaustion of any of these programs, 2023, with income first falling short of outgo in the year 2007, only 7 years from now.

This program is clearly a smaller program than the OASI program, but it does bear careful monitoring. In the past, disability experience has tended to fluctuate a fair amount, often for no obvious reasons. Also, we are in a very strong economy right now. Past experience would indicate that as the economy might weaken, disability experience would tend to deteriorate somewhat. So we would encourage the Subcommittee to keep a close monitoring of the disability insurance program, as well as the old age and survivors insurance program.

Dr. Moon has given you the overall numbers for the OASDI program, in terms of exhaustion dates and actuarial balance. We might review very briefly for you what contributed to the change from the prior year. There really were four factors that went into the change. The first one is the strong economy, that is, strong economic growth. Basically higher levels of productivity in the economy, certainly very positive, combined with low unemployment rates and low inflation, have produced considerably positive effects on the system.

The second major factor influencing the results went the other way a little, and that would be the demographic changes. We did feel that it was appropriate to put in faster rates of improvement in longevity. This is obviously good for people, although it does increase the costs to the system somewhat, if people are going to live longer in retirement. And we did feel some further increases in life expectancy than what had been assumed before were warranted.

On the other hand, we did put in a small increase in fertility rates, based on recent birth patterns over the last decade. And that tends to offset the longevity increase somewhat, but the net effect of those two demographic changes is still an overall minus.

The third factor influencing the results was the addition of a 75th year into the projection period. That is a negative year, the year 2074 combined with a good year 1999, falling out of the projection period. So this rolling forward 75-year methodology does each year bring in a negative year. And that certainly contributed a minus.

Finally, the fourth factor involved several methodology changes. There were quite a few different factors coming into play, largely having to do with newer data, better sampling techniques, improved modeling techniques, improved software, a variety of things like that. So the methodology changes this year contributed positively.

The net effect of all four of these, when they're aggregated, was an overall net positive, which did, as Dr. Moon said, extend the life of the trust fund by about 3 years. It extended the date at which revenue first falls short of expenditures by 1 year, to 2015, and did reduce the long term actuarial deficit by about .17 percent of payroll.

My overall assessment of these results obviously is that the last two or 3 years have been very positive for the system, largely due to the strong economic growth. However, I think it is important to note that the long term demographic challenge that the system faces is still very much in place; namely, the retirement of the baby boom generation, followed by relatively low birth rates. Today, the system has a ratio of 3.4 workers per beneficiary. At the end of the projection period, that will fall to about 1.9.

So the system still basically, in the long term, is being driven by major demographic factors in the population. Strong economic performance can improve this situation and help finance these benefits, but it will not completely solve this problem.

Our recommendations for you going forward is to always keep the long term view in mind. I think the 75 year projection period is a key part of what this activity is all about. We would recommend avoiding getting caught up in short term phenomena. Right now we are in a period of very strong economic growth. Ten years ago, on the other hand, rates of productivity were basically flat. There were corporate downsizings, there was a lot of gloom and doom that the economy had entered, a new period in which a stagnant type of situation existed.

There is a tendency to overreact to both good times and bad times. We would caution against that. We think that we need to keep the long term view in mind. And there is a value, we think, in making the changes in the assumptions incrementally rather than abruptly. The experience evolves over time, and this annual review is an important part of continually monitoring the experience each year as it develops.

We are heartened that there has been a constructive political debate starting on how this system can be dealt with. No consensus has yet emerged from that debate. These particular trust fund reports do not point to any particular solution. There are a variety of ways in which the program can be brought back into long term balance.

We strongly encourage that this debate continue. We certainly agree with the Chairman that this is not the time for delay and inaction even though the news is good. It is important that the system be brought back into balance. The earlier action is taken, the less drastic the changes have to be. The longer that action is deferred, then the more significant the changes will have to be.

Also, there's a real value, we believe, in whatever changes are made to phasing them in smoothly and not abruptly, so that people will have significant time to plan for their own retirements, so that the rules of the game basically aren't changed abruptly for people who are at or nearing retirement age.

It is important that we continue to work to restore confidence in this system, particularly among the younger generation.

In closing, I would like to commend the professionalism of the work which is done in the Office of the Actuary at the Social Security Administration. Their efforts in producing the materials that Dr. Moon and I and the other trustees review is invaluable. It is high quality work. I think the country is very well served by the professionalism of that staff and the process by which these reports are prepared and the assumptions and methodologies are set.

In closing, it is a true honor and privilege to have been able to serve for 5 years as a public trustee. It has been a great experience. I will certainly second Dr. Moon's comments that we believe it is very important that new public trustees be appointed. I think they are an important part of the process to continue to ensure the integrity and objectivity of the process by which these assumptions are set and the reports are prepared.

Thank you very much, and we would both be happy to entertain any questions you might have.

[The prepared statement follows:]

Statement of Stephen G. Kellison and Marilyn Moon, Ph.D., Former Public Trustee, Social Security and Medicare Trust Funds, Board of Trustees

Mr. Chairman and Members of the Subcommittee:

As you know, our terms as Public Trustees ended with our signing of the 2000 Annual Report on March 30. Thus, we are appearing here today at your request as public citizens. Of course, our deep interest in the Social Security program and its financing did not end last week, and we are happy to testify regarding the financial status of the Social Security Trust Funds as shown in the 2000 Annual Report of the Board of Trustees.

At the outset we note that our goal as Public Trustees was to ensure the integrity of the process by which the annual reports are prepared and the credibility of the information they contain. We believe that the Public Trustees' role is important and strongly urge the President to nominate and the Senate to confirm new Public Trustees promptly so that they can be full participants in next year's report. Public Trustees are part-time officials, must be of different political parties, and should have technical expertise in the financing of social insurance or related programs in order to represent the public interest in this important process of public accountability.

In our normal activities, Mr. Kellison is an actuary and consultant and Ms. Moon is an economist and researcher, both with extensive public and private experience in Social Security and Medicare. As Public Trustees we also approached our work on a bipartisan basis because we are convinced that this is the only way in which the financing problems facing Social Security and Medicare can be solved. The passage with bipartisan support of the Balanced Budget Act of 1997, which has so dramatically improved the financial status of Medicare, illustrates this point cogently.

As Public Trustees over the last five years, our primary activities were directed at assuring that the Annual Trust Fund Reports fully and fairly present the current and projected financial condition of the trust funds. To this end, we worked closely with the Offices of the Actuary in the Social Security and the Health Care Financing Administrations to ensure that all relevant information is considered in the development of assumptions and methods used to project the financing of these vital programs. Mr. Chairman, we would note for the record what we are sure you and this committee know well: it is an extraordinarily complex task to make financing projections for these programs for the next 75 years. It is only through the high professionalism and decades of experience of the Social Security and Medicare actuaries that such projections are possible. And we can attest that this work has proceeded on a most careful, nonpartisan basis. But it is critical to remember always that these projections ultimately are only estimates and must necessarily reflect the uncertainties of the future.

In fact, as good as it has been the last 5 years' experience reminds us that the rate of economic growth has always varied over time, and that a few years or even decades of performance in one direction do not tell us what the future will be. For example, in the early 1990s many economists believed that the United States had after 1973 entered a future of much slower economic growth. Now, many think the current fast rate of growth may persist indefinitely. Our experience convinces us that for the Trustees' 75-year projections, the responsible approach is to make changes in the economic and demographic assumptions on an incremental basis. As the reports are updated each year, an incremental approach still allows new information or experience to be reflected relatively quickly when appropriate.

Thus, the projections in the trustees reports are most useful if understood as a guide to a plausible range of future results. And, as this hearing illustrates, the reports serve as an early warning system that allows us the opportunity to make changes in a timely and responsible manner.

The Old-Age and Survivors Insurance Trust Fund

In the 2000 report, the Old-Age and Survivors Insurance (OASI) Trust Fund, which pays Social Security retirement and survivors benefits, shows a positive balance at the end of 1999 of $798.8 billion with a net increase in that year of $117.2 billion. The fund's assets now equal over 2 years of projected benefit costs. The OASI fund has been taking in more in tax revenues than it has been spending for a number of years and is projected to continue in that mode for 16 years. As the baby boom generation begins to reach age 65 after 2010, however, OASI benefit costs each year will increase rapidly and, beginning in 2016, will exceed annual tax income. However, the accumulated assets of the OASI fund, interest on those assets and tax revenues are projected to cover benefit outlays until 2039, three years longer than projected in the 1999 trustees report.

Although the assets of the OASI fund are projected to be exhausted in 2039, tax income provided under current law would equal nearly three-quarters of full benefit at that time. By 2074, however, the portion of benefits that tax income would cover is projected to decline to about two-thirds. Over the full 75-year period, the OASI fund shows a deficit of 1.53 percent of payroll, which is 11½ percent of the projected summarized 75-year cost of the OASI program, and is 10 percent less than the deficit shown in last year's report.

The Disability Insurance Trust Fund

The Disability Insurance (DI) Trust Fund also showed a net increase in 1999 of $16.5 billion and ended that year with a positive balance of $97.3 billion. As this committee is well aware, disability costs are more difficult to project than are retirement and survivors benefits. Historically, the Social Security Disability Insurance program has experienced periods of growth and decline for which causes cannot be established with certainty. In the early 1990's the number of workers applying for disability benefits increased rapidly, and there was great uncertainty whether this was a temporary or a long-term phenomenon. Actual experience since 1993 shows that applications for disability insurance benefits leveled off in 1994 and have actually declined 16 percent by 1999 despite the fact that more people are moving into the prime ages for disabilities. It seems likely that the tight labor market has contributed to the lack of growth in disability insurance applications. The total number of disabled workers receiving benefits has continued to increase, however, because more people have come onto the rolls each year than have left.

The disability program has experienced significant and not fully explained fluctuations over the last two decades. The trustees therefore recommend that the program be monitored closely in coming years. The 2000 Trustees Report intermediate projections show that tax income to the DI fund will exceed expenditures through 2006, but that full DI benefits can be paid until the fund's assets are exhausted in 2023. Over the 75-year projection period, the DI fund shows a deficit of 0.37 percent of payroll, or about 16 percent of the program's projected 75-year cost.

Combined OASDI Trust Funds

If the DI and OASI trust fund projections are combined, the exhaustion date for the combined funds is 2037, 14 years later than for the DI fund and 2 years sooner than for OASI. On a combined basis, expenditures first exceed tax revenues in 2015. From 2016 through 2024 interest income will be needed to supplement current tax income to meet costs, and in 2025 through 2037, current tax income, interest income plus a portion of the trust fund assets will be needed to pay benefits. This is the third year in which the combined OASDI trust fund exhaustion date has been pushed back, reflecting the strong economic growth we have experienced during these years. Considered together, the OASI and DI programs have a projected long-term deficit of 1.89 percent of payroll, as compared to a deficit of −2.07 in last year's report.

Reasons for Change in Actuarial Balance

The primary reasons for the reduction in the projected actuarial deficit in the 2000 trustees report are the continued good economic experience in 1999, improvement in the projected economic performance in the future, and advances in projection methods. In particular, the assumptions in this year's report reflect consideration of the recommendations last October of the Technical Panel on Assumptions and Methods convened by the Social Security Advisory Board, and of the changes also announced in October by the Bureau of Economic Analysis (BEA) that had the effect, among other things, of increasing the annual historical growth rate of productivity. Thus, compared to the 1999 report, this year's report generally reflects assumptions of faster economic growth.

On the demographic side, the assumed rate of improvement in life expectancy was increased by about one-third, in the direction but not to the extent recommended by the Technical Panel. The fertility rate also was increased somewhat to reflect recent actual experience, and this change somewhat offsets the effect of the life expectancy change. Finally, a number of separate improvements in the data and methods used to project the number of covered workers and their earnings levels, the distribution of widows and spouses, short-term interest rates, and long-range average benefit levels had the effect of improving the actuarial balance. The positive effects of these changes were somewhat offset by the negative effect of modifications in the methods for projecting the number of new disabled-worker beneficiaries. Such improvements in the methods used by the actuaries occur almost every year as better data and procedures are developed. Over the past decade, such changes have occurred in 8 of the 10 years, improving the actuarial balance in 4 years and worsening it in 4 years. The cumulative negative effects of the changes in methods, however, have been almost twice as large as the positive effects. As the listing of changes in the 2000 reports illustrate, every aspect of the assumptions and projections methods are reviewed in preparing each year's report and changes are made as necessary to provide the best projections possible.

Process for Constructive Change

As trustees we were heartened by the debate that has occurred over the last 5 years about the future of Social Security because that debate did begin to focus on what kind of program would best provide necessary economic security for current workers and their children in old age. But often that debate has seemed to stall, as exaggerated claims are made by both sides. These issues are too important to be left to the vagaries of partisan politics. Also, the strong economy of the last 4 years has weakened the argument that Social Security must be radically changed because it is absolutely unaffordable. What needs to emerge from the debate is change that has broad support and that can restore confidence that Social Security will be there for future generations.

The improved financial projections mean that there are many ways to put Social Security back in fiscal balance. The task is to choose an approach on positive grounds rather than settling for a particular approach just because it will produce "enough" savings. But as we noted earlier, a few good years do not reduce the inherent uncertainty about the future. We sincerely hope that the debate about the future of Social Security continues and provides the information base for the public to decide soon what kind of changes they believe will serve them best.

Conclusion

We have been privileged to take part in the thorough and careful process by which the annual reports are prepared to provide this vital public accounting, and we have been impressed with the care and high degree of professionalism of the actuarial staffs who assist the trustees. We strongly believe that these reports serve as a nonpartisan early warning of the need for changes to ensure continuation of these programs and not as evidence of their failure to protect future generations.

Based on our experience as trustees over just the last 5 years, it is overwhelmingly clear that Social Security cannot be insulated from social and economic change in our country in the future, just as it has not been in the past. The strength of the Social Security program has been that it can adapt as our national circumstances change. It is the acceptance of the necessity for change by all of us as individuals that is most difficult. This can be eased only by having the information we need to be able to understand why change is necessary and in which direction it should take us. This committee serves a crucial role in developing the necessary information for Social Security policy development, and we welcome the opportunity to participate in this hearing to discuss the dimensions of Social Security's financing problem.

We have attached the four-page "Message From the Public Trustees" that is included in the *Summary of the 2000 Annual Reports,* as well as our biographical information. We thank you for the opportunity to present our views and will be pleased to answer any questions.

[An attachment is being retained in the Committee files.]

Chairman SHAW. Thank you, Mr. Kellison. Thank both of you for your very fine statements.

Dr. Moon, your Ph.D., I believe, is in economics. I have a masters degree in accounting, so you and I are not going to agree on very much. But I think we can explore for some common ground, if I may, for just a moment.

I would make the assumption that there's nothing in your remarks that should indicate that we should just stay the course and continue to do what we are doing and pile up the deficit in the out years. I also would assume, or I would ask you, the figures that I used in my opening statements, I believe they came from your report, I would assume that you agree upon the tremendous deficits that are out there, if we don't do anything. Am I correct in that?

Ms. MOON. Yes. There will be very large deficits over the long run that would be difficult to deal with if nothing is done until those deficits begin to pile up.

Chairman SHAW. I'm going to ask you now, and I know this is difficult for economists, but I think you're up to it, think as an accountant for just a few moments. And I want to take you to the year 2015. And now we are going into 2016. And according to the report, at that time the Treasury bills are going to have to be invaded. We are going to have to start cashing in those Treasury bills.

Where is that money going to come from? It is a dumb question, but it has got a very simple answer.

Ms. MOON. Yes. Well, the money comes from either higher tax revenues or changing those bonds from being held by the trust fund to rolling over and creating a new publicly held debt.

Chairman SHAW. So it's either going to be tax dollars or debt?

Ms. MOON. Yes.

Chairman SHAW. We'll have a basic assumption here that no Congress is going to change the benefit structure. I assume that the report indicates, or the report makes that basic assumption, so we are going to hold to that.

Ms. MOON. Well, the report makes that assumption. Certainly that is one issue that people talk about in terms of another alternative and some people have proposed modest changes in the benefit structure as well.

Chairman SHAW. For one, I don't think it will ever happen, and I certainly don't intend to support that as long as we know that there are other ways that we can go.

So taking that into hand, would the effect on the taxpayer be any different at all if there were no Treasury bills?

Ms. MOON. I believe that the Treasury bills are a very important signal to people of the importance of this program, that they are a commitment to support this program over time. They mean that currently, we are paying higher taxes than necessary to support the current program. I think that is totally appropriate, since many of the folks who are paying higher taxes right now are my generation, baby boomers.

Chairman SHAW. I agree with everything you're saying. But you didn't answer the question. And remember, you've got an accounting hat on now, not an economist's hat. And that is, would it have any different effect on the taxpayer, with or without the presence of the Treasury bills?

Ms. MOON. Ultimately, in that year, when there is a deficit, the taxpayer will have to either pay additional amounts in higher taxes, or new debt will have to be created. And that would not be different.

Chairman SHAW. So the long term effect on the American taxpayer is the same, with or without the Treasury bills. So following that through, what is the significance of the fact that we are not going to run out of Treasury bills until some years later, other than extending a visible sign of commitment by this Congress and this government to tomorrow's retirees?

The Treasury bills themselves, the presence of the Treasury bills is just that, and that only. Because the taxpayers are going to have to come and rescue the system, so that the cash flow is going to run huge deficits in the future that are either going to have to be bonded off by more debt or benefits will have to be paid by increasing taxes, whether it be FICA taxes or whether it be income taxes, or some other taxes that the Federal Government might think of. The taxpayer is going to have to come and bail this system out, beginning in the year 2016. Is that correct?

Ms. MOON. That is essentially correct, yes.

Chairman SHAW. OK. Well, that is the point that I want to make. And the only reason I'm making it is not to create an argument, but to simply say that we are all in agreement that we've got to get this thing solved. Because beginning in 2016, I mean, I will now announce that I will not run for office in 2016. So I will not be here. But I will probably, if I live long enough, and I hope I do, and I think I will, I'll certainly be around to watch this. And I don't want to shove this problem off to my kids and my grandkids. I'm sure none of us do.

So many people think that we don't need to worry about this until 2030-something, and I know the President has talked about 2050-something, by putting more Treasury bills, and the Vice President has talked about creating more Treasury bills.

But that doesn't bail the system out. The taxpayers are on the hook beginning in 2016. And we really need to hammer on that point and say, we've got to do something.

Now, I'm not necessarily saying that I have the answer, Chairman Archer has the answer, or Mr. Doggett has the answer, or Mr. Portman or Mr. McCrery or anyone else that is on this Committee or serves in this Congress. But we need to attack the issue, and we need to do it early. And I assume you agree with that?

Ms. MOON. Yes, I think that is right.

Chairman SHAW. Good, thank you.

Mr. Doggett.

Mr. DOGGETT. Thank you, Mr. Chairman.

First, let me just say that I think there is a significant difference in some of the proposals that have been advanced, last year's USA accounts, this year a slight variant of that from the administration, to supplement the existing Social Security system and give people an opportunity to have individualized accounts to supplement Social Security versus some of the alternatives that have been advanced to take money out of the trust fund and use it for individualized or privatized accounts.

I don't see how you could possibly extend the life of the current Social Security system if you were taking from it in order to have individualized accounts, whether it's partially individualized and privatized or wholly privatized. It seems to me that is only going to reduce the ability of this fund, be it 2015, 2016 or thereafter, to meet its obligations.

But Dr. Moon, I want to focus your attention for just a moment if I might on the statements that are in the report about the importance of continued economic growth to provide promised benefits. Chairman Greenspan, when he testified recently to the Senate Aging Committee, also noted that the goal of Social Security and Medicare reform must be to increase the real resources available to meet needs. And he also pointed out that transferring moneys from the on budget to the off budget Social Security accounts could make it politically more likely that the large projected unified surpluses will in fact actually materialize.

Do you agree with Chairman Greenspan's thoughts on that?

Ms. MOON. I believe that any policy that results in buying down the publicly held debt, reducing that, making sure that we are doing reasonable things to invest in the future of our economy, will make Social Security more affordable, make everything more affordable.

You don't have to have enormous economic growth in any given year if you have good, consistent economic growth in some very good years. As we've seen with this trust fund report, you can have a major impact on future liabilities. So I think that is got to be one major part of any solution, that is an emphasis on economic growth as helping with this policy.

The issue of how you view this trust fund and the transfers, I think is a very tricky one. I do think that it's important to retain a sense that this is a high priority item. We recognize that in the future there are going to be large draws on this program. And I view the trust fund as a way of signalling that.

Mr. DOGGETT. And I believe in the past, you've argued in favor of, if we can't do a full 75 years of solvency, at least do something to make improvements.

Ms. MOON. I think to wait until you have the perfect solution that gives you 75 years is not necessarily the right thing to do, particularly if there are changes that all sides can agree make sense to do, it seems to me that they should proceed. There are clearly some kinds of adjustments that people talk about or changes that may bring, be contradictory to one type of an approach or another. So it seems to me that one way to think about this is to potentially do things that there is some agreement on, and do them as soon as possible.

Mr. DOGGETT. Is it your belief that the basic approach that the President has suggested, while it does not assure a full 75 years, by reducing debt, by dedicating the interest savings to Social Security, that this will both promote economic growth and extend the life of the Social Security trust fund?

Ms. MOON. It extends the life of the Social Security trust fund. I believe it would enhance economic growth, making the issues that we'll have to face more affordable. It is not in itself a solution. It is a step in the direction of a solution.

Mr. DOGGETT. I know that our Chairman in his comments and questions to you has just focused on this 2015, 2016 era. And while I certainly agree that is important, some Republican members have focused on it so much, on grounds that the trust funds are not really real assets, they're basically meaningless, on the one hand. And on the other, they've told us that they're providing great protection to future Social Security beneficiaries by locking up what is meaningless.

Let me ask you if you view the trust funds as being meaningless.

Ms. MOON. I do not believe that they are meaningless. And I believe that in the same way that we create Treasury bills and sell them to individuals with an intention to pay in the future, we create the trust fund and an obligation with an intention to pay in the future.

Mr. DOGGETT. And if we eliminate or at least significantly reduce the debt held by the public by the year 2013, won't that promote economic growth and put us in a much better position to meet any problems that we might encounter in 2015 or thereafter?

Ms. MOON. I believe that is true as well.

Mr. DOGGETT. Thank you very much. Thank you, Mr. Kellison.

Chairman SHAW. I'd like to, Mr. Doggett, correct you on one thing. I don't think anybody said they were meaningless assets. But we've had numerous witnesses, including, I believe, Dr. Moon, question whether or not Treasury bills held by the Federal Government are real economic assets.

I don't think anybody said they're meaningless. In fact, I agreed with Dr. Moon in that it is a symbol of our commitment to future retirees. And a visible commitment. But the question is, how do you use those bonds, how do you use the resources. And the real economic assets are going to have to be extracted out of the hide of the taxpayer beginning in 2016. So that is the point.

But I don't want anyone to leave this hearing thinking that anybody up here has said that the Treasury bills are meaningless, because they certainly are not. Also, I want to agree with you, Mr. Doggett, where the carve-outs would be a problem. That is why Chairman Archer and I have not supported carve-outs, that we've done it completely with add-ons. I would welcome your co-sponsorship of our bill. I haven't really gone in depth with you about it, but it sounded like you were singing our song. And let's just see how close we are some day.

Mr. McCrery.

Mr. MCCRERY. Thank you, Mr. Chairman. This is an interesting discussion, as always, when we get together and talk about Social Security.

However, it's going to get less and less interesting as time goes on, and these longer term problems that we can now sit here in our secure seats and talk about will be much more exigent.

So you know, we talk about doing things incrementally. But I would ask the two panelists, what's been done incrementally since, say, 1990 to help this problem?

Mr. KELLISON. Well, in terms of legislative changes, not much.

Mr. MCCRERY. Well, what, if any? What? You say not much. I want to know what, incremental changes, legislative that have been made.

Mr. KELLISON. I think that is really the only way you can make changes in the program on either the benefit or the revenue side, primarily, is through legislation. And there's been very little that is been substantive that would affect the program in the last decade.

Mr. MCCRERY. Well, what has been done? You said very little. I'd like to know what that very little is.

Mr. KELLISON. I think basically nothing.

Mr. MCCRERY. That is the answer I was looking for. Nothing has been done in the last decade, incrementally or big picture wise. Nothing has been done legislatively.

We've gotten lucky, because the economy has been good through the decade. And that has improved these numbers that we talk about almost in the abstract. But we haven't done anything, incrementally or otherwise. But we talk a lot about it.

The fact is, we can talk until doomsday, and doomsday will come. These figures should be frightening.

The Chairman and Ms. Moon agreed that in the year 2016, when we have to start redeeming the bonds in the trust fund, that it can be done only two ways, either increase taxes or increase the publicly held debt. That is not correct. We could cut spending, couldn't we, Ms. Moon?

Ms. MOON. Yes. As I indicated—

Mr. MCCRERY. So that is a third option. We wouldn't have to increase the publicly held debt, nor would we have to increase taxes.

We could cut defense spending or education spending or environmental spending. And who here thinks that we are going to do much of that?

Well, we might, if things are just right politically for a year or two or maybe five. But eventually, the pressure is going to be so great, as evidenced by your own numbers, the debt, the deficit, the cash deficit, is going to be so great that it will be impossible to cut spending, and we will have to raise taxes or cut benefits or just increase the Federal deficit.

So I hope that Mr. Doggett and Mr. Shaw can get together, and all of us, and quit this partisan bickering and whether this plan is better or that, and say, we've got do something. And I don't really care what it is. We've got to do something to solve this problem. I'm tired of sitting here and talking about it in the abstract. Eventually this is going to cause a huge problem for our society, if we do nothing.

Same thing with Medicare. Medicare and Social Security are like time bombs, and they're ticking. If we do nothing, except pat each other on the back about the good economy, then these two programs will ensure that we don't have a good economy. They will ensure that we have a terrible economy, and the standard of living in this country will go down. The dollar will be not worth very much. And it will be our fault, because we talked and did nothing.

So with that happy note, Mr. Chairman, I will yield back my time.

Chairman SHAW. Mr. Portman.

Mr. PORTMAN. Thank you, Mr. Chairman. And I appreciate the fact that you continue to focus on 2014, now 2015, rather than 2037 or 2039, because I think it's important in terms of focusing this Congress. And I am concerned, when the President talks about the fact that we don't need to worry about Social Security for another 40 years, because that is just not the case.

And Mr. McCrery just made the case again that our choices, in a very short period of time, a decade and a half, are going to be limited, first, and second, very painful. And the sooner you begin to adjust, the more likely it is we can avoid that fiscal train wreck.

Ms. Moon, you talked earlier about in the future, in response to Mr. Doggett, large draws on this program. It's a fiscal nightmare, isn't it? I mean, if we don't do something, the escalation of the insolvency problem is so great that baby boomers, my generation, who will then be retired and sending all those e-mails to all those Members of Congress who are going to succeed Clay Shaw and myself, they'll have a lot to say about that.

And I don't think it's going to come out of the benefit side. I think it is going to come out of the hide of the American taxpayers, those who are left working and paying taxes, which will be a smaller percentage of the population as compared to now. And it is a huge issue.

So I want to thank you, Clay, I know it probably gets a little old going back to that every hearing, but to focus on it. And I want to thank you all for giving us another report. I guess if I could summarize what I see in the report, it's very little has changed. We've moved from solvency about a year, based on some better economic assumptions and slightly different modeling.

But I hope nobody in the press is writing that our problems are solved. I've seen some reports more focused on the Medicare projections than the Social Security projections saying, gee, everything's great now. I just hope that is not the report. I basically see very few reasons for optimism to come out of this report, but more reasons, as Mr. McCrery said, for us to get to work and do something.

I do think that going to Mr. Doggett's point about the USA accounts, we need to realize that sort of approach does nothing to affect the solvency of Social Security. Is that correct, Ms. Moon, Mr. Kellison?

Ms. MOON. Yes, if it's done outside of the system, it does not affect the solvency of the program. It does not, though, take resources away from Social Security, either, which I think was Mr. Doggett's point.

Mr. PORTMAN. Well, it does, though, if you follow the President's logic, which is he uses general revenues. It's $250 billion over 5 years. It's got to come from somewhere. Where does it come from?

Ms. MOON. It would certainly come from the revenues of other parts of the Federal budget, but not necessarily—

Mr. PORTMAN. Bingo. And in a balanced budget era, we don't have $250 billion out there. I mean, we could change spending patterns. We could not do the marriage penalty relief, I suppose. There are other things we could do.

But the point is, if you look at the President's approach, it's basically moving one pot of money to another. He comes up with an arbitrary number, which is the interest savings on the debt. You can bump the number you want. I mean, correct me if I'm wrong, but every proposal has some transition costs. That is an interesting number, but it's changing the compact that FDR made, which is that this is not going to be in general revenue program, it's taking money out of general revenues, as do other proposals, including ones that are supported by Republicans.

But it doesn't help the solvency one bit. And it will hurt in the sense that it's taking money away from general revenues that otherwise could be used for Social Security. And a big chunk, a bigger chunk than any other tax proposals out there.

It's also interesting to me, Mr. Doggett, you said that the personal accounts do nothing to extend the life of the trust fund. And you know, if you look at the Archer-Shaw proposal, I know it's proposed by Republicans, but it's not inconsistent with anything you've said. Look at every single approach out there. Every one has a transition cost. The Archer-Shaw one is a 2 percent tax credit. And what does it do? It gets a higher rate of return, so that over time it absolutely affects the solvency of the program.

In fact, the non-partisan analysis coming from the Social Security Administration and from the folks here on the Hill who project what the economic forecasts are going to be are that it not only affects the solvency, but over time, when you look long term, out 50 years, it results in no solvency problem at all, because you get that higher rate of return year after year, and the government will have to pour in less and less of the Social Security payroll taxes into people's retirement because of these higher rates of return.

Granted, there is a transition. And the transition is funded how? General revenues, right? So this notion that somehow personal accounts don't solve the problem, I mean, the only way you solve the problem is with general revenues. With personal accounts, at least you're only using general revenues for a short period of time to get over that hump. And then you have a solution to the problem that I think is very creative and frankly, given the choices, raising taxes, cutting benefits, I think is by far the preferred option.

So I would just encourage my friends on the other side of the aisle to take a serious look at this proposal. Because I do think it's not a Republican proposal or a Democrat proposal, although some Republicans are calling a Democrat proposal, while Democrats beat up on it.

And I'm sorry to talk so much and not ask more questions. But I have read your testimony. What I am concerned about your testimony is where you say that the improved financial projections mean that there are many ways to put Social Security back in fiscal balance. The task is to choose an approach on positive grounds, rather than settling for a particular approach, because it will produce enough savings. I don't know what that sentence means.

And since it's both your testimony, either one of you can respond to it. I will not take any more time, but if you could just tell me what that means, I think it would be interesting. I mean, a particular approach that just creates enough savings, I hope we are going to have an approach that will create enough savings. Why is that a bad thing? What do you mean by that? What can I read into what you are saying?

Ms. MOON. What we were trying to say is that the trust funds are out of balance, and something will need to be done. But we don't believe that they are so far out of balance that there is out there only one solution and no other solution that can solve this problem. What we were trying to say is that this should be an empowering kind of an issue in terms of thinking about the future of Social Security, that there are several options that you could use. And you need to choose and make some tough choices. But there's no one that says, this is the only thing that can solve this problem.

Mr. PORTMAN. Mr. Kellison? But you have to choose one, you just said. I don't know quite what that means. I think the word empowerment is interesting, too, because then that's consistent with the personal account idea, empowering people to save more for their own retirement, which we should be doing in our private pension side, as well, where we have enormous opportunity to provide the backstop to Social Security.

But Mr. Kellison, what did you mean by that sentence?

Mr. KELLISON. I think Dr. Moon has captured it. It certainly was not a call to inaction by any means. I think it was basically a statement that recognized that there are different solutions for this issue that have been proposed, that a consensus has not really emerged behind any one set of proposals, and that there are multiple ways in which the program can be dealt with.

Now, none of them are painless, however, as you well pointed out. And I strongly would reiterate the need, as several of you have expressed, about taking some action forthwith on this program. The longer that there is a delay in taking action, the more significant changes will have to be to bring the system back into balance.

And that is the risk of looking at this report in sort of a good news way that might lead some to say, well, we can delay having to deal with these issues. That's a mistake. Because the issue is there, the demographic profile of the population is there. And the longer that action is delayed, the more significant the change is going to have to be to fix it then. I think that's clear.

So perhaps, those words were chosen poorly, if they've conveyed an attitude that we can just kind of muddle along and not do anything about it. That was not the intent.

Mr. PORTMAN. Well, thank you. Thank you, Ms. Moon. Thank you, Mr. Kellison. I appreciate and agree with your statement.

Chairman SHAW. Thank you, Mr. Portman. I just wanted to underscore, I don't think we've talked enough about what Mr. McCrery has talked about, and that is, the economic nuclear explosion that is out there that our kids and our grandkids are going to have to find shelter against if we don't do anything. And it is.

The figures, and I'd like to ask my economist friend, I use the figure in my statement that by the time you get to the year 2037, that there's going to be a shortfall, cash shortfall of $318 billion that's going to have to be made up in some way. What would you project? And you all are fortune tellers, that's what we look to economists for. Do you agree with Mr. McCrery that this is something that's going to have a tremendous negative effect on the strongest economy on the face of this Earth?

Ms. MOON. I guess I look at it a little bit differently. Because we have an aging society, we're going to have an aging society. There are going to be a lot of us baby boomers around. I think there are going to be a lot of different challenges, of which I actually believe Social Security will be a relatively modest one.

I think one of the challenges is, how do you keep, how do you use productively the millions and millions of people who will be in their retirement years and encourage them to remain active in some way, either in the labor force or in volunteer activities.

There's an enormous richness that we should not let go and we should not discourage people from participating in. At the same time, I think we should not also bash the generation because they stay alive in retirement and think of it as a nightmare. Because it's actually what we have all wished for, and that is longer life expectancy. It's going to create a number of challenges, and there are some things that we are going to deal with.

If we have strong economic growth, $318 billion will not seem like a great deal of money. And that clearly is one piece of this whole puzzle. So it is very difficult to imagine what's going to be viewed as affordable or unaffordable in 30 years, or even in 20 years.

Chairman SHAW. Dr. Moon, I don't know anybody that said living longer is going to be a nightmare. I'm just talking about not planning. To come up with all these rosy things like volunteerism and all these things that you think it's going to do, do you disagree that the deficits will increase from $20 trillion to $21 trillion?

Ms. MOON. No, I don't disagree.

Chairman SHAW. You don't think that we've got a projected deficit? I believe your own trustees' report projects deficits over 75 years in that amount if we don't do anything. And I think I got that from the Social Security Administration.

Ms. MOON. And I'm not saying we should not do anything. What I'm trying to say is—

Chairman SHAW. But do you disagree with that type of deficit if we don't correct this, if we don't do something to shore up the Social Security program?

Ms. MOON. No, I don't. And that's why we're here saying we should—

Chairman SHAW. Well, you take a stab at it. How many trillions of dollars are we looking at over the next 75 years, if we just do nothing?

Ms. MOON. Well, I think you have the figures in front of you, and I don't have them in front of me. I'm not disagreeing with your figures. And I'm not disagreeing that this is a substantial issue.

Chairman SHAW. Do you disagree with the figure that I'm giving you? I mean, I got it from the Social Security Administration. I'm not smart enough to think that up.

Mr. Kellison, perhaps you'd like to—do you have a memory of that particular figure?

Mr. KELLISON. I don't have the numbers right in front of me, but I think your numbers sound about right. I don't disagree with them. If that was your source, I think that would be our source, too.

Chairman SHAW. You know, one of the things, and I'll make just an across the bow blast right now of everybody who's running for President, nobody has stepped up to the bag and said, we have to correct this now, and here's what I'm going to do. And I can tell you, the American people are looking for that. And once the word goes out that they know that we are in deep trouble starting just 15 years from now, the American people expect their leaders to do this.

The President of the United States told me and Chairman Archer at the Blair House Conference that we had just a year and a few months ago that he did not want us to come forward, that he wants to put together the plan and take the leadership. Every significant change in the Social Security system that has been made in my memory, and probably in the entire existence of the program, has been with the leadership of the White House.

And we've yet to get that, even though we've received the commitment of the President. All we hear, the only thing we're hearing from the White House is more Treasury bills, which we know, and we certainly established, does not solve the problem in 2016, or investing the Social Security trust funds in the stock market. And that's something the American people are not going to tolerate, and I will certainly oppose as long as I'm in the Congress or have anything to say about it.

So, we put a plan out there, and we're looking for support on the Democrat side, just like welfare reform. It has to be done in a bipartisan way. And unless you have bipartisan cooperation, it will never get done.

And whether it's the Archer-Shaw plan, whether it's some of the other plans that are out there, this Congress has to act. Because there is an economic disaster that's out there. And I don't care what kind of rosy assumptions you make, I'm not going to leave this to my kids in 2016 and beyond, and my grandkids, in 2016 and beyond. That just is not something that this Congress should do.

We've got good times, we've got great opportunities. We've got surpluses, and now is the time to step up to the plate and solve this question. That's what we're here for, to make these hard decisions. That's what the White House is, they're supposed to give us some leadership. The Founding Fathers saw that, even though they propose and we dispose. It's time that we do get together and pull this thing together.

I think this has been a very good hearing. Do any of the other members have anything to say before we adjourn?

Mr. MCCRERY. Mr. Chairman?

Chairman SHAW. Yes, Mr. McCrery.

Mr. MCCRERY. Just a note, Ms. Moon said that, I think in 2037 there would be a $318 billion deficit, is that what you said?

Ms. MOON. I think I was reiterating what Mr. Shaw said. I didn't have the number in front of me.

Mr. MCCRERY. Oh, OK. Is that what you said, Mr. Chairman? Is it $318 billion in 2037?

Chairman SHAW. Right.

Mr. MCCRERY. OK. And Ms. Moon said, well, you know, who knows, given continued economic growth, how significant a $318 billion deficit will be in 2037. I know what you're talking about, and I agree. But lest anyone in the audience or in the press listening thinks that these numbers are not adjusted for inflation, they are. So we're talking about $318 billion in today's dollars. And we don't know what the figure will be in 2037, but it will be more than $318 billion in 2037 dollars.

So I just wanted to make that clear. All these numbers we're talking about are inflation adjusted, or not inflation adjusted, they're in today's dollars. So the $21 trillion accumulated deficit between 2015 and 2074, it's $21 trillion as we think of dollars today, not as we will think of them in 2074.

Thank you.

Chairman SHAW. I think it's also important to realize, and Dr. Moon, I'll certainly say this to you, you talk about increased economic growth. Economic growth is already in your report. And there is an assumption for that. And quite frankly, Mr. Kellison, all you can do is guess since neither one of us are medical scientists, and I don't think medical scientists can even project, but I think your life expectancy figures are low. I think we can look to live much longer than even your assessment of the possibility of increased life expectancy.

So it may be that $318 billion is too low. It may go way beyond that, as we do enjoy longer life, longer retirement. So we've really got to do some changes here that will save Social Security for all time.

We appreciate the work you have done on the report. I think you have certainly given us some excellent information, and we appreciate your being here this morning. And if there's no other comments or questions from the members, we will be adjourned.

Thank you.

[Whereupon, at 10:59 a.m., the hearing was adjourned.]

[The following questions submitted by Chairman Shaw and the responses of Dr. Moon and Mr. Kellison follow:]

Responses to Questions for the Record to Marilyn Moon and Stephen Kellison following Social Security Subcommittee hearing on April 6, 2000

1. Are Social Security's growing cash deficits an indication that a pay-as-you-go system is not sustainable when the population is aging? Do you think we need some saving within Social Security, in some form, to make the program viable in the long run?

Social Security annual balances are projected to be positive until 2025 and the steep rise in program costs will slow dramatically once all of the baby boom generation reaches retirement age in about 2030. Aging of the population thereafter is projected to result from increases in life expectancy and therefore be quite gradual. Thus, the projected aging of the population is not an indication that Social Security is unsustainable. The real question is what the cost of the program will be 20 or 30 years into the future in relation to the nation's wealth and other demands, such as health care, at that time. As the 1999 Technical Panel noted, there are ways to reduce the uncertainty in program costs due to uncertainty about future demographic change by automatically adjusting program rules for increases in life expectancy or adjusting tax or benefit formulas over time. In regard to trust fund savings, the current buildup of trust fund assets invested in U.S. Treasury bonds is a form of saving within Social Security and will help pay benefits when the annual cash flow turns negative. Further build up of trust fund assets would require reductions in current benefits and/or increases in revenues to the trust funds: this is one option for extending the solvency of Social Security but only one of many that should be explained to the public and considered in any financing reform legislative package.

2. In the Trustees' Report and in your written testimony, you express concern about the significant fluctuations in the disability program over the past two decades, and you recommend close monitoring of the program in the coming years. What would be the best way to monitor the Disability Program? Does SSA need to undertake new research or analyses specific to this issue?

The best way to monitor the disability program over the short run is to follow the monthly update of program experience provided by the SSA Office of the Chief Actuary to the committee and at www.ssa.gov/OACT/STATS/dibStat.html. For the longer term projections of disability costs, the research contract SSA has underway to evaluate the incidence of disability in the U.S. population is most promising but will take several years to complete.

3. You mention that while you are heartened by the debate that has occurred over the past 5 years about the program, you say that the debate has often stalled, as "exaggerated claims" are made by both sides and that these issues are too important to be left to the "vagaries of partisan politics." Here is your opportunity to set the record straight -which "exaggerated claims" are you referring to and how have they stalled debate?

The exaggerations in the debate about Social Security financing reform range from "nothing needs to be done" to "invest in equities and you will get rich." Debate through "sound bites" such as these do not give the public the information it needs to evaluate reform options—it can however stall the political process of developing consensus by seeming to offer simple solutions to issues that are complex and subject to uncertainty

4. Social Security's financial status improved slightly in this report. The most positive impact on the program's financial outlook was created by a change in the methods used to make future projections. Can you explain these changes? What would Social Security's 75-year deficit have been if the Trustees used the same methods they used in last year's annual report?

Rather than try to condense the description of the changes in actuarial methods and other factors that affected the actuarial balance in the 2000 OASDI Annual Report, we respectfully refer you to pages 130 − 132 of the report. We would note that improvement in actuarial methods occur in almost every report as new data and techniques become available. Over the past decade, changes in methods that increased that actuarial balance have totalled 0.63 percent of taxable payroll, and those that have decreased the deficit have totalled 0.36 percent of payroll. Changes in actuarial methods in the 2000 report improved the actuarial balance 0.17 percent; without those changes the deficit would have been −2.07 (totals do not add due to rounding).

5. We are now experiencing the country's longest economic expansion, yet Social Security is still insolvent in the long run. Should we rely on a strong economy to "grow our way out of this problem?"

It would be inadvisable to stop the debate regarding the best ways to improve Social Security's financing and rely only on continuation over the next 75 years of current rates of economic growth. The rate of growth in real earnings in the U.S. over the last 4 years is higher than for any similar period in over 30 years, and if we could maintain for the next 75 years such a rate of growth we would more than eliminate the projected Social Security financing problem. However, even the optimistic economic assumptions in the 2000 report do not project long-term average economic growth to be nearly as rapid as that we have experienced over the last 4 years.

6. The 1999 Technical Panel made several recommendations regarding the methods and assumptions used in the Trustees' Report. Can you please go through each of the Panel's recommendations and explain: (1) which recommendations were incorporated; (2) which recommendations were not incorporated, and (3) why were these decisions made? In addition, did the Trustees implement any changes in assumptions or methods that the Technical panel did not recommend?

It is difficult to compare the Technical Panel's recommended economic assumptions with those used for the 2000 Annual Reports because after the Panel reported the Bureau of Economic Analysis released significant changes in national economic data that changed, among other things, the historical rate of growth in U.S. productivity. The Panel said that there was "significant uncertainty both as to the level of future productivity and our ability to measure it...." and recommended that the ultimate assumption regarding the rate of average annual growth in real wages, which are strongly influenced by productivity and are key to trust fund revenue projections, be increased from 0.9 percent to 1.1 percent The productivity assumption in the 2000 report was increased by 0.2 to 1.5 percent per year, and the real wage assumption was increased to 1.0 percent per year. The Panel also recommended that the assumption regarding the rate of interest on bonds held by the trust funds by lowered by 0.3 percent per year, from 3.0 to 2.7 percent. The rationale given for this recommendation was to derive it by subtracting the assumed rate of inflation from the assumed nominal long term interest rate. Subsequent discussion of the Panel's recommendation in January by experts invited by the Social Security Advisory Board found strong disagreement with reducing the assumed interest rate on trust fund bonds to 2.7 percent because of substantial market evidence that a rate of 3.0 or higher is more appropriate. Thus, the real interest rate assumption of 3.0 percent per year in the 1999 Annual Report was not changed for the 2000 report.

The most significant recommendation regarding assumptions made by the 1999 Technical Panel was to double the assumed average decline in mortality rates from those in the 1999 Annual Report. As Public Trustees we have followed debate about this assumption by outside experts carefully and have found that there is a wide range of views about the prospects for faster increases in life expectancy over the next 75 years. The Technical Panel thought that life expectancy in the U.S. would speed up as it has in such countries as Japan and France in recent decades. Other experts believe that biological and social factors may slow future rates of decline in mortality (i.e. increase in life expectancy) in the U.S. The fact that decline in the mortality rate among those age 65 and older has averaged only 0.56 percent per year since 1982, in part because for the first time in a century the rate of increase for older women has fallen below that of older men, raises serious and unanswered questions about current as well as future prospects for more rapid increases in life expectancy. After careful consideration of the disparate views and evidence regarding future increases in longevity, the assumption on the average decrease in mortality for older people (the age group in which most of any decrease must occur), the assumption in the 2000 report was increased by about 30 percent, from about 0.5 percent for women and men considered together in the 1999 report, to about 0.65 percent per year in the 2000 report.

The 1999 Technical Panel considered but did not recommend an increase in the fertility rate (the 1995 Technical Panel had recommended an increase from 1.9 to 1.95 children per woman). Based on the continuance in the most recent data of fertility rates just over 2.0 percent, the fertility assumption in the 2000 report was increased from 1.9 to 1.95 children per woman.

7. Several proposals have been introduced that would broaden the scope of the information provided in the Trustees' Report. Should the Trustees' Report include (or more clearly explain) certain information, such as the:

(1) the long-term sustainability of the Social Security program, (2) the program's unfunded liability, (3) rates of return for different cohorts, and (4) the effect of newly enacted Social Security provisions on the budget and national saving?

The 1999 Technical Panel generally sought ways to improve the presentation of the Social Security program's financial status and outlook, including the critical issues of the uncertainty involved in any projection and of the sustainability of the program at the end of the 75-year projection period. The issue of sustainability at the end of the period is presented in discussion of actuarial estimates in the 2000 report. There was not time to fully consider and make extensive other changes in the presentation of the annual report for 2000, but we understand that such changes will be studied for the next report. Of the specific areas you asked about including in the report, the long-term financial status—whether described as income compared with costs, sustainability or something else, is an objective of the report and needs to be conveyed as clearly as possible. The program's unfunded liability is a much more complicated concept, which can be defined in several ways and is difficult to comprehend for most of us. The unfunded liability is therefore not likely to help the public understand Social Security's long-term financial status, but it could be considered for inclusion in the annual report. The issues of rate of return and the effect of Social Security on the budget and national savings are, in our view, not proper subjects for inclusion the annual trustees report on the financial status and outlook of the trust funds. Rather, those issues could better be presented in the Economic Report of the President as they concern not the trust funds but national economic matters.

8. You state that the trustees reports serve as an early warning system that allows us the opportunity to make changes in a timely and responsible manner. Based on your service as Trustees, what changes would you support.

We would hope that the President and the Congress would make programmatic changes in Social Security whenever changes that make sense and have public support are identified. As we said earlier, the recent retirement test legislation could be seen as such a change. The financing plans offered by the 1995 Advisory Council included several programmatic changes that could be considered. What we are most concerned about is the seemingly pervasive assumption in discussions of Social Security financing reform that the only way to proceed is to develop a package of proposals that will, at the time of enactment, put the program into perfect 75-year actuarial balance. That is the model of the 1977 and 1983 legislation and of the 1995 Advisory Council plans. We think that the enormous uncertainty that exists about the future makes waiting to devise the "perfect" plan a much less desirable goal than making changes whenever they achieve the necessary public support.

[A submission for the record follows:]

Statement of Michael F. Ouellette, Director of Legislative Affairs, TREA Senior Citizens League, Alexandria, Virginia

TSCL Members

[In District]

Representative E. Clay Shaw, Jr., Chairman	4,000
Representative Robert T. Matsui, Ranking Member	2,980
Representative Sam Johnson	1,842
Representative Michael Collins	2,133
Representative Rob J. Portman	3,070
Representative J. D. Hayworth	5,247
Representative Jerry Weller	3,776
Representative Kenny C. Hulshof	3,549
Representative Jim McCrery	1,713
Representative Sander M. Levin	3,480
Representative John S. Tanner	2,357
Representative Lloyd Doggett	1,944
Representative Benjamin L. Cardin	2,915

Mr. Chairman, The TREA Senior Citizens League (TSCL) appreciates the opportunity to submit testimony to your subcommittee's hearing to examine the findings of the 2000 Annual Report of the Board of Trustees on the financial status of the Social Security Trust Fund. In this regard, TSCL is grateful for the chance to offer a number of insights and recommendations for the subcommittee's consideration. TSCL hopes that this testimony will be beneficial to the members of this subcommittee during their deliberations.

TSCL is a non profit, issues advocacy organization representing over 1.5 million members and supporters and is dedicated to serving its members by defending and protecting their earned retirement benefits. The League is registered to conduct grassroots fundraising, public education and lobbying activities in nearly every state, and does not solicit nor accept any money from the federal government. For your information, over 39,006 of our members are constituents of this subcommittee's members. TSCL sincerely thanks the members of this subcommittee on the decision to hold a hearing designed to closely scrutinize the current near-term prognosis for Social Security as well as the long-run solvency picture associated with the benefit. TSCL fully agrees with the Board of Trustees recommendation that as reform of the Social Security program is considered, it will be imperative that changes can be phased in gradually and workers will have time to adjust their plans to account for the changes.

INTRODUCTION

Mr. Chairman, TSCL welcomes the Social Security Trustees Report showing that the Trust Fund will not become bankrupt until 2037 instead of 2034 as reported one year ago. But that date is deceptive. The SS Trust Fund's (SSTF) solvency has nothing to do with the federal government's ability to pay retirees full benefits as promised. The crucial date is really 2015.

In 2015, SS spending on benefits will begin to exceed revenues. The government at that time will need to draw on special issue Treasury bonds that represent I.O.U.s from other parts of the government to the SSTF. Before 2015, the government will have to choose between cutting future benefits to retirees, raising taxes or finding ways to increase the rates of return earned on retirement money to finance full benefits.

Measures To Protect Social Security

TSCL supports current the Social Security "lock box" measures to set aside Social Security payroll taxes in order to pay down federal debt. This will do far more to help put the nation's retirement system on sounder footing than would cutting taxes, but it does nothing to provide for unfunded liabilities to future retirees, nor does it insure that current retirees will receive full benefits as promised.

Surveys of TSCL members overwhelmingly favor reform of the Social Security system. Assuming that there would be no change to their current level of benefits, about 69 percent of TSCL members would favor some form of personal retirement accounts for younger workers.

Because 2015 is the crucial date rather than 2037, TSCL urges this subcommittee and the Congress to move ahead with measures that would protect the financial solvency of SS and thus insure that SS pays full benefits as promised. Action taken now will allow adequate time for careful study of proposals, full and open debate, and for changes to be enacted gradually over a period of time to avoid creating another " NOTCH" in benefits.

Gradual Change Important To Prevent A Notch In Benefits

TSCL urges this subcommittee and Congress to enact reforms gradually, in small incremental steps. Changes to Social Security that are too drastic, over too short a period of time, may create a "Notch" in benefits. TSCL points to the Social Security changes of 1977 as a case in point.

A Notch creating a disparity in benefits between retirees born 1917 through 1926 and those born before and after them arose from legislation enacted in 1977. The legislation altered the way Social Security benefits were computed beginning with people who became eligible in 1979—only two years later. Disparities in benefits are often very large, in some instances exceeding $200 a month, and were not intended by Congress.

TSCL maintains that Notch Reform, in which benefit disparities would be addressed and corrected should be included as part of any Social Security reform. Two bills currently in the House, H.R. 148 and H.R. 568, as well as the Senate bill, S. 390, would offer those born from 1917 through 1926, or their surviving beneficiaries, the option of choosing Lump-Sum payments, paid over four years, totaling $5,000 or improved monthly benefits over a four-year period.

The total number of those born during the Notch period of 1917 through 1926 is now estimated at about 9 million. Accordingly TSCL estimates the cost of "Lump-Sum" Notch reform to $45 billion.

The Congressional Budget Office (CBO) projects that our total federal budget surplus for 2000 will be $161 billion, $147 billion of which is Social Security payroll taxes. The CBO, in fact, projects the budget surpluses will continue over the next 10 years. The above Notch Reform bills would require financing over a four-year period. The revised estimated cost of Notch Reform is $11.25 billion per year over 4 years.

Senior COLAs

A commonly mentioned reform to Social Security is to change the Consumer Price Index (CPI). Some economists have charged that the CPI overstates inflation and thus overpays Social Security COLAs. TSCL maintains this is not the case.

Social Security COLAs are indexed to a CPI that does not even survey the market basket of seniors, but that of Urban Wage Earners and Clerical Workers, the CPI–W. The CPI–W specifically excludes the market basket of those receiving pension income such as Social Security. It does not accurately reflect the rapidly rising costs of health insurance or prescription drugs because workers are more likely to have employer-provided insurance and do not purchase prescription drugs as frequently as seniors do.

A study of the Consumer Price Index for Elderly (CPI–E) consumers confirms that inflation for seniors is rising more quickly than for the general public. The CPI–W thus understates inflation for seniors. According to the Bureau of Labor Statistics over the period from 12/82 through 9/99, the CPI–W increased a total of 68.1%; the CPI–E increased 78.5% for a difference of 10.4 percent. The medical care component for the CPI–W increased 159.7% and the CPI–E increased 169.3%.

TSCL studies have found that if the CPI–E were used to index senior COLAs instead of the CPI–W seniors would have received $5,480.10 more over the 16 years for which the government has tracked the senior CPI, as illustrated in the following table:

Year	Average Monthly Benefit w/ CPI–W	CPI–W*	Average Monthly Benefit with CPI–E	Actual CPI–E*	Percentage difference between CPI–W and CPI–E	Monthly Difference	Yearly Difference
1984	$487.00	3.5%	$487.00	4.3%	22.86%	$–	$–
1985	$504.05	3.1%	$507.94	3.8%	22.58%	$(3.90)	$(46.75)
1986	$519.67	1.3%	$527.24	2.5%	92.31%	$(7.57)	$(90.87)
1987	$526.43	4.2%	$540.42	3.9%	–7.14%	$(14.00)	$(167.97)
1988	$548.54	4.0%	$561.50	4.2%	5.00%	$(12.96)	$(155.57)
1989	$570.48	4.7%	$585.08	5.0%	6.38%	$(14.61)	$(175.27)
1990	$597.29	5.4%	$614.34	6.0%	11.11%	$(17.05)	$(204.57)
1991	$629.54	3.7%	$651.20	4.7%	27.03%	$(21.65)	$(259.85)
1992	$652.84	3.0%	$681.80	3.2%	6.67%	$(28.97)	$(347.61)
1993	$672.42	2.6%	$703.62	3.1%	19.23%	$(31.20)	$(374.40)
1994	$689.90	2.8%	$725.43	2.9%	3.57%	$(35.53)	$(426.35)
1995	$709.22	2.6%	$746.47	2.9%	11.54%	$(37.25)	$(447.00)
1996	$727.66	2.9%	$768.12	3.0%	3.45%	$(40.46)	$(485.49)
1997	$748.76	2.1%	$791.16	2.4%	14.29%	$(42.40)	$(508.79)
1998	$764.49	1.3%	$810.15	1.8%	38.46%	$(45.66)	$(547.95)
1999	$774.43	2.4%	$824.73	2.6%	6.79%	$(50.31)	$(603.69)
2000	$793.01		$846.18			$(53.16)	$(637.97)
	Total benefits lost over 16 years						$5,480.10
	Average loss per year over 16 years						$342.51

TSCL supports the creation of more fair Social Security COLA by indexing it to the CPI–E as proposed in "The Consumer Price Index for Elderly Consumers Act" (H.R. 1422) introduced by Representative Bernie Sanders (I–VT) and Rep. Robert Ney (R–OH).

In addition, the CPI has already undergone a series of technical change during the 1990's to address the problem of so-called over-statement of inflation. These changes have had the cumulative effect of slowing the rate of growth in the CPI by about 0.8 percentage points. In the July 15, 1998 report by the Congressional Budget Office forecasts were revised in part to reflect these changes. The CBO noted that, " Because of changes the Bureau of Labor Statistics has made or plans to make in how it measures the CPI, the 2.7 percent inflation projected for 2000 is comparable to 3.4 percent inflation calculated on the basis of measurement techniques used before 1995." That equals a 0.7 percentage point correction.

Last year the CBO revised their forecasts once again stating that, "the CBO has increased its estimate of the technical adjustment by less than 0.1 percentage point a year, on average for the 1999–2009 period.” This brings the cumulative effect of the changes to 0.8 percentage points.

TSCL has studied the effect a more slowly growing CPI has on the retirement benefits and found that the average retiree stands to lose more than $4,444 over the next ten years. The table below shows the effect of a 0.8% CPI correction:

Year	Average Monthly Benefit	CPI Assumption Old Method	Benefit Increase	Benefit the Following Year
1998	765.00	1.9	14.54	779.54
1999	779.54	3.1	24.17	803.70
2000	803.70	3.3	26.52	830.22
2001	830.22	3.2	26.57	856.79
2002	856.79	3.3	28.27	885.06
2003	885.06	3.3	29.21	914.27
2004	914.27	3.3	30.17	944.44
2005	944.44	3.3	31.17	975.61
2006	975.61	3.3	32.20	1007.80
2007	1007.80	3.3	33.26	1041.06
2008	1041.06	3.3	34.36	1075.42
2009	1073.33	3.3	35.42	1108.75
2010	1108.75	3.3	36.59	1145.34

Year	Average Monthly Benefit	CPI Assumption New Method	Benefit Increase	Benefit the Following Year
1998	765.00	1.3	9.95	774.95
1999	774.95	2.4	18.60	793.54
2000	793.54	2.5	19.84	813.38
2001	813.38	2.4	19.52	832.90
2002	832.90	2.5	20.82	853.73
2003	853.73	2.5	21.34	875.07
2004	875.07	2.5	21.88	896.95
2005	896.95	2.5	22.42	919.37
2006	919.37	2.5	22.98	942.35
2007	942.35	2.5	23.56	965.91
2008	965.91	2.5	24.15	990.06
2009	988.13	2.5	24.70	1012.83
2010	1012.83	2.5	25.32	1038.15

Year	Old Method Benefit	New Method Benefit	Monthly Difference	Annual Benefits Lost
1999	779.54	774.95	4.59	55.08
2000	803.70	793.54	10.16	121.88
2001	830.22	813.38	16.84	202.09
2002	856.79	832.90	23.89	286.64
2003	885.06	853.73	31.34	376.05
2004	914.27	875.07	39.20	470.42
2005	944.44	896.95	47.50	569.95
2006	975.61	919.37	56.24	674.87
2007	1007.80	942.35	65.45	785.40
2008	1041.06	965.91	75.15	901.78
2009	1075.42	990.06	85.36	1024.27
2010	1108.75	1012.83	95.92	1151.04
Ten Year Loss (total, year, month)	1999–2008	4444.16	444.42	37.03
	2000–2009	5413.35	541.33	45.11
Five Year Loss (total, year, month)	1999–2003	1041.74	208.35	17.36
	2000–2004	1457.08	291.42	24.28

TSCL is not only opposed to using the CPI–W as an index for senior COLAs, but also favors a moratorium on further corrections to the CPI until the Social Security COLA is indexed to the CPI–E.

Conclusion

In closing, TSCL wishes to thank the members of this subcommittee for holding this important hearing. In this regard, TSCL believes that the future of Social Security will depend on continued efforts of this subcommittee to protect the existence of the program. Continued combative efforts may give the Congress the levels of funding needed to pass legislation that would:

•Provide relief to a group of Social Security recipients who were born in 1917 through 1926 who have been receiving less in their retirement benefit due to the changes that were made in 1977 to the Social Security benefit formula. These "Notch" babies, as they are referred to, consequently have less in disposal income than many of their contemporaries and are facing much more severe financial hardships than others. The passage of H.R. 148 or H.R. 568 could greatly assist these "Notch" victims by providing a $5,000 settlement paid at a rate of $1,200 annually for 4 years.

•Provide Social Security recipients with an annual Cost-of-Living Adjustment (COLA) based on CPI–E calculations that accurately reflect or take into account the buying habits of seniors. Senior citizens are affected differently than other consumers by changes in the cost of certain goods or services. Passage of H.R. 1422, The Consumer Price Index for Elderly Consumers Act, would be another major step in the right direction to help ease the financial devastating situations older Americans currently face.

Mr. Chairman, TSCL suggests that the insecurity associated with the current Social Security system creates an environment of stress that take a real toll on the health and welfare of older Americans. Seniors simply must be given assurances that their earned retirement benefits will remain intact instead of living in constant dread and fear of loss. The very fact that this subcommittee is moving to protect their benefits in order to meet their needs means a great deal to older Americans and their families. Again, TSCL appreciates the opportunity to present a number of views on behalf of its over 1.5 million members and supporters to this subcommittee.

Thank You.