EFFORTS TO INFORM THE PUBLIC ABOUT SOCIAL SECURITY

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

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COMMITTEE ON WAYS AND MEANS

BILL ARCHER, Texas, *Chairman*

SUBCOMMITTEE ON SOCIAL SECURITY

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

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EFFORTS TO INFORM THE PUBLIC ABOUT SOCIAL SECURITY

TUESDAY, APRIL 11, 2000

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

The Subcommittee met, pursuant to notice, at 3:08 p.m., in room B–318, Rayburn 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 CONTACT: (202) 225–3943
April 4, 2000
No. SS–15

Shaw Announces Hearing on Efforts to Inform the Public about Social Security

Congressman E. Clay Shaw, Jr., (R–FL), Chairman, Subcommittee on Social Security of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on efforts to inform the public about the Social Security program. The hearing will take place on Tuesday, April 11, 2000, in room B–318 Rayburn House Office Building, beginning at 3:00 p.m.

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

BACKGROUND:

Americans need to have a basic understanding of the Social Security program, its benefits, and its financing in order to make informed decisions about Social Security's future and their own retirement planning. This information may be provided through a variety of sources.

For example, beginning last year, the Social Security Administration has been mailing annual Social Security statements to all workers age 25 and older to inform them about the Social Security program and to help them plan for retirement. The statement provides workers with estimates of their potential Social Security benefits based on their earnings. The statement also provides workers with a record of their earnings and a fact sheet about the Social Security program.

Another important source of information about the Social Security program is the Board of Trustees' annual report on the financial status of the Social Security Trust Funds. This report includes a great deal of information about Social Security's financing and the projected economic and demographic trends which affect the program's future. The annual report is an important source of data on the Social Security program.

In announcing the hearing, Chairman Shaw stated: "The mailing of Social Security statements is an unprecedented, personalized outreach to all American workers about Social Security and what it means to their retirement security. American workers have the right to know as much as possible about their financial future, including the amount of Social Security benefits they have earned and any factors that may qualify their confidence in getting their full benefits. This hearing will examine what Social Security is telling taxpayers, and whether that information is accurate, understandable, and useful."

FOCUS OF THE HEARING:

The hearing will examine the information available to the public about the Social Security program, its benefits and its future financing. The hearing will also examine recommended changes to this information and the way information is delivered to the public.

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*, Tuesday, April 25, 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.

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

Chairman SHAW. We will now proceed. Good afternoon. Today's hearing is about a simple and widely accepted truth: Knowledge is power. It is interesting to see how much power is sitting at that table in front of me. Only if American workers and families understand Social Security and how it may benefit them will they have the power to effectively plan their financial future. So several questions logically follow: What do Americans know about Social Security? What does the Social Security Administration tell them today? And how can we help Americans understand more about Social Security, so they can better plan for their retirement?

With us today are a number of experts on these topics, starting with Social Security Commissioner Ken Apfel. We also are pleased to welcome witnesses from the General Accounting Office and a number of think tanks and associations representing young people, women, and employers. And for anyone who thinks that a Social Security Hearing is incomplete without testimony from an actuary and an economist, we have got those bases covered, too.

We welcome all of our witnesses, as well as Representatives Weller, Hoekstra, Pomeroy, and Sununu, who will lead off our hearing. Together, we think through ways to provide workers and beneficiaries with the most accurate, useful, and personalized information about Social Security possible, especially given the challenges Social Security will face paying full benefits in the future. Getting that information out to workers and beneficiaries now is quite essential.

As I mentioned at the outset, with that knowledge will come the power for workers and families to decide whether and how they must adjust their work, savings, and retirement plans for the long haul.

Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman. I am just going to submit my statement for the record, given the fact that we have five panels today. And I want to welcome all the witnesses, the four here on this panel and, obviously, Mr. Apfel, the GAO, and others that will be testifying. Thank you.

[The opening statement follows:]

Statement of Hon. Robert T. Matsui, a Representative in Congress from the State of California

I would like to thank Chairman Shaw for holding this hearing. Our topic today is extremely important. I believe the American people deserve to receive the most accurate information possible about the Social Security benefits they have earned and about the future of the Social Security program.

Last October, as required by law, the Social Security Administration (SSA) began mailing annual individualized Social Security Statements to every worker in the United States over the age of 25. SSA expects to send out 125 million Statements over the course of this fiscal year.

The Statements serve two main functions. First, they are designed to assist workers with retirement and financial planning by providing them with an estimate of the Social Security benefits for which they will be eligible when they retire, if they become disabled, or if they die at an early age. Second, they are designed to help SSA maintain accurate earnings records so that workers are sure to receive the benefits that they have earned. Each Statement lists the earnings that SSA has on record for that worker and provides him or her with an 800 number to call if SSA's records are incorrect.

Some Members of Congress as well as other individuals have suggested that more information should be added to the Social Security Statement. Clearly, in order for the American people to make sound decisions about their own retirements and about the changes that will have to made in the Social Security program, they should have as much information as possible at their disposal. But it is vitally important that that information is thorough, objective, and easy to understand.

I am concerned, however, that the changes some would seek could diminish, rather than enhance the public's understanding of the Social Security program and the benefits they can expect to receive from it.

Some proposals including one we will hear about today would require the Statement to compare rates of return under Social Security versus a hypothetical privatized system. Other proposals would require the Social Security Statement and the Trustees' Report to contain statements calling into question the existence of the Social Security Trust Funds.

I would have serious concerns about either type of proposal.

Of course, the most productive way to resolve the question of what level of benefits people workers can expect to receive from Social Security in the future is to enact legislation to strengthen Social Security.

Rather than simply talking about Social Security Statements or the Trustees' Report and how they may influence the public's confidence in the future of Social Security, Congress should be acting to bolster America's confidence in the program. Instead of holding hearings to discuss hypothetically what may happen once the Trust Funds are exhausted in 2037, this Subcommittee should be marking up legislation to make it absolutely certain that the program will be able to pay full benefits to each and every generation of American workers.

Democrats have introduced legislation to extend the Social Security Trust Funds beyond 2050, but that bill has not moved. I hope we can do a little more this year than consider lock-box proposals. As we all know, lock-boxes will do nothing to improve Social Security's finances and will not extend the Social Security Trust Funds by even a single day.

I look forward to hearing from Commissioner Apfel and from Ms. Bovbjerg of the General Accounting Office about the steps the Social Security Administration has taken to enhance the annual Social Security Statement. I also look forward to hearing views from the other witnesses about the usefulness of the information contained in the Social Security Statement and in annual Trustees' Report.

Thank you, Mr. Chairman for yielding me this time. I look forward to working with my colleagues toward our common goal of strengthening the Social Security program for future generations.

Chairman SHAW. I would say to all the witnesses that we do have your complete statement to be made a part of the record. We are going to be interrupted with a series of votes here shortly. I would like to try to get through as much as we can. So I would really, particularly today because of the length of our agenda, ask that if everyone can summarize we would be most appreciative.

Mr. Weller.

STATEMENT OF HON. JERRY WELLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. WELLER. Mr. Chairman, Mr. Matsui, I appreciate the opportunity to testify before a Subcommittee I am proud to be part of. And I appreciate the opportunity to work with you as we work to solve the challenges facing Social Security.

And as we have all shared, you know, there are few concerns of greater priority to working families than their pension or retirement plans. And clearly, Social Security has emerged over the last 60-some years as a key component of retirement planning for most working Americans, something they are very sensitive to.

And Mr. Chairman, let me commend you and Chairman Archer for your leadership on Social Security. And I am so proud of what we have accomplished over the last several years with your leadership as well as Chairman Archer's and Speaker Hastert's leadership on stopping the raid on Social Security and ending the unfair Social Security earnings penalty, the limit.

It was a proud day last week when the President signed the legislation which passed unanimously with overwhelming bipartisan support. Of course, it was a big day when the President signed it, and of course, now that Social Security earnings penalty is now history. And working Americans that are seniors will be able to keep what they earn as well as their Social Security benefits.

Today I wanted to talk about legislation that addresses some of the challenges facing Social Security. As we know, Social Security has some troubles ahead. It is facing insolvency in the long term in the year 2037. And I am one of those who believes that unless we solve this challenge now, it is going to be more difficult in the future.

And I also believe that the public and the taxpayer have the right to know about the challenges facing Social Security and what it means to them. And Mr. Chairman, that is why I have joined with my friend and colleague who has initiated this legislation, John Sununu of New Hampshire; legislation that addresses the public's right to know about the state of the Social Security Trust Fund.

Our legislation, H.R. 3578, the Social Security Right To Know Act, will better inform the public about the Social Security system by doing two things: First, requiring that specific information be included in the annual report of the trustees of the Social Security Trust Fund, detailing the state and the status of the Social Security system; and second, requiring that the Social Security personal earnings and benefits estimate statement include information about Social Security solvency and what rate of return taxpayers can expect from their Social Security wages.

The Social Security Board of trustees has just released its report on the financial status of the Social Security and Medicare Trust Funds. And although the report does indicate that there has been a slight improvement from last year's report, Social Security still has serious challenges.

The costs of maintaining the Social Security system will begin to exceed tax receipts in 2015. And that is a watershed year, since it also marks the time when, unless significant reform is enacted, decisions will have to be made to decrease benefits or increase taxes—something no one wants to do. It is that simple: Our children and grandchildren will have to pay the bill when Social Security is no longer solvent. And that is wrong, and I believe the public must be made aware of it.

Mr. Chairman, we believe that by requiring the trustees to include information regarding long-term solvency of the system, the public will be better informed. H.R. 3578 will ensure the public's right to know, by requiring the annual report to include the total amount of the unfunded long-term liability of the Social Security system. Further, the Trustees' Report will show the amount of deficit or surplus the system will run in 75 years, under this legislation. And finally, the legislation requires that specific language be included in the report explaining the nature of the Social Security Trust Fund. We believe this is an important step in ensuring the public's right to know.

Each individual who contributes to the Social Security fund has a right to know where their retirement money is going. The Social Security Administration has begun mailing an annual statement, the Social Security Personal Earnings and Benefit Estimate Statement, to all those over age 25 who participate in the Social Security program, regarding the status of their benefits.

This is a good step—I have received that myself—in ensuring that the public is well informed of their own contributions to Social Security. But it does not explain what rate of return they can expect to see on their benefits; nor does it show the financial troubles that the Social Security Trust Fund will be experiencing in the coming decades.

H.R. 3578 clarifies the annual statement, and ensures that the Social Security Personal Earnings and Benefit Statement includes information regarding the solvency of the trust fund. Specifically, the bill requires that the annual statement include solvency dates based on the Office of Chief Actuary; ensuring that all future beneficiaries have the knowledge of when the system will begin to go bankrupt and when it will be insolvent.

Further, the legislation requires a statement explaining the nature of the Social Security Trust Fund and its ability to fund future benefits. This legislation will give beneficiaries a clearer understanding of the status of the Social Security system currently and in the future. And this legislation provides workers the most up-to-date and accurate information that can help them plan for their future.

Finally, and very importantly, the Social Security Right To Know Act requires language explaining the average rates of return that taxpayers can expect to receive from their Social Security retirement tax payments. This guarantees that the taxpayers know what they can expect to receive from their investment, and then they can compare it to alternatives in the marketplace: Stocks, bonds, and other investments.

Mr. Chairman, the public has a right to know what their money is doing for them, and has a right to plan their retirement accordingly. I believe that H.R. 3578 is an effective means for increasing the public's awareness of the Social Security system, the challenges that it faces; but also, guaranteeing that Social Security beneficiaries and taxpayers have the right to know as they make plans for their own personal retirement.

I thank you for the opportunity to testify today, and look forward to discussing this legislation with you.

[The prepared statement follows:]

Statement of Hon. Jerry Weller, a Representative in Congress from the State of Illinois

Thank you, Mr. Chairman, for the opportunity to testify today.

Mr. Chairman, first let me commend you and Chairman Archer for your leadership on Social Security. Your leadership ensured passage of legislation which stopped the raid on Social Security and ended the unfair Senior Earnings Penalty. The good news about Social Security is our efforts are paying off. The Congress stopped the 30 year raid of the Social Security Trust Fund last year and we will not return to the days of spending the Social Security Trust Fund. Further, H.R. 5 is now law, ending the unfair earnings penalty for seniors. Again, Mr. Chairman, I commend you and Representative Sam Johnson for your tireless efforts in seeing this legislation passed.

Nevertheless, Mr. Chairman, Social Security is in trouble. The Social Security Trust fund is facing insolvency. Unless we solve this problem now, the guarantee of Social Security will not be a guarantee for future generations. Social Security simply will not be there for those people born today. Mr. Chairman, the public has a right to know this. We must take steps to inform the public now what the future holds for Social Security.

Mr. Chairman, I have joined in cosponsoring legislation introduced by Representative John Sununu addressing the public's right to know about the state of the Social Security Trust Fund. H.R. 3578, The Social Security Right to Know Act, will better inform the public about the Social Security system by doing two things. First, requiring that specific information be included in the Annual Report of the Trustees of the Social Security Trust Fund detailing the state of the Social Security System. Second, require that the Social Security Personal Earnings and Benefits Estimate

Statements include information about Social Security's solvency and what rate of return taxpayers can expect from their Social Security wages.

The Social Security Board of Trustees has just released its report on the financial status of the Social Security and Medicare Trust Funds. Although the report does indicate that the status of the Social Security Trust fund has improved slightly from their previous report, Social Security is still in serious trouble. The costs of maintaining the Social Security System will begin to exceed tax receipts in 2015. This is a watershed year since it marks the time when, unless significant reform is enacted, decisions will have to be made to decrease benefits or increase taxes. It is that simple—our children and grandchildren will have to pay the bill when Social Security is no longer solvent. This is wrong and the public must be made aware of it.

Mr. Chairman, by requiring that the Trustees include information regarding the long term solvency of the system, the public will be better informed. H.R. 3578 will ensure public right to know by requiring the annual report to include the total amount of the unfunded long-term liability of the Social Security system. Further, the Trustees' report will show the amount of deficit or surplus the system will run in 75 years under this legislation. Finally, the legislation requires that specific language be included in the report explaining the nature of the Social Security Trust Fund. Mr. Chairman, this is an important step in ensuring the public right to know.

Each individual who contributes to the Social Security fund has the right to know where their retirement money is going. The Social Security Administration has begun mailing an annual statement, the Social Security Personal Earnings and Benefit Estimate Statement, to all those over age 25 who participate in the Social Security program regarding the status of their benefits. This is a good first step in making sure that the public is well-informed of their own contributions to Social Security, but it does not explain what rate of return they can expect to see on their benefits nor does it show the financial troubles that the Social Security Trust Fund will be experiencing in the coming decades.

H.R. 3578 clarifies the annual statement and ensures the Social Security Personal Earnings and Benefit Statement includes information regarding the solvency of the trust fund. Specifically, the bill requires that the annual statement include solvency dates based on the Office of the Chief Actuary. This will ensure that all future beneficiaries have the knowledge of when the system will begin to go bankrupt and when it will be insolvent. Further, the legislation requires a statement explaining the nature of the Social Security Trust Fund and its ability to fund future benefits. This legislation will give beneficiaries a clearer understanding of the status of the Social Security system currently and in the future. This legislation provides workers the most up-to-date and accurate information that can help them decide how to plan for their future.

Finally and very importantly, The Social Security Right to Know Act requires language explaining the average rates of return that taxpayers can expect to receive from their Social Security retirement tax payments. This guarantees that the taxpayers know what they can expect to receive from their investment and can compare it to returns for stocks, bonds and other investments. Mr. Chairman, the public has a right to know what their money is doing for them and has a right to plan their retirement accordingly.

Mr. Chairman, H.R. 3578 is an effective means for increasing the public awareness of the Social Security system and the problems it faces. The public has a right to know about their Social Security. I thank you for allowing me to testify today.

Chairman SHAW. Thank you.

Peter.

STATEMENT OF HON. PETER HOEKSTRA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. HOEKSTRA. Thank you, Mr. Chairman, Mr. Matsui. I will keep mine short. You gave my speech when you gave your opening comments, and information is powerful.

One example of hidden information is what is missing from every employee's annual W-2 tax form. What is missing is the employer's share of the Federal Insurance Contributions. Their FICA tax is what funds Social Security and Medicare.

If you take a close look at your W-2 form, you will see the 7.65 percent that every employee contributes to Social Security and Medicare. Employers must also pay another 7.65 percent in payroll taxes on their employees' behalf, adding up to a total of 15.3 percent of an employee's total income. That is the percent that is withheld.

Many workers are unaware of this employer contribution to Social Security and Medicare, which also makes them unaware of how much their employment actually costs. Not only does this lack of information hide from employees the true cost of their employment, but it also makes them uninformed about how much of their paycheck funds two government programs which are vital for their retirement security: Social Security and Medicare.

We can make sure that employees are informed about the real costs of these programs by requiring W-2 forms to include the employer's share of the payroll tax. The Right To Know National Payroll Act, H.R. 1264, which I introduced in March 1999, would give employees vital information on how payroll taxes affect their employment and how much they actually contribute to Social Security and Medicare.

Hundreds of businesses and the State of Michigan have adopted a right-to-know payroll form in an effort to inform and educate their employees. H.R. 1264 would complete the picture for everyone else.

Thank you.

[The prepared statement follows:]

Statement of Hon. Peter Hoekstra, a Representative in Congress from the State of Michigan

TAX RELIEF BILL GIVES EMPLOYEES THE RIGHT TO KNOW

Mr. Chairman, Members of the Subcommittee, thank you for the opportunity to testify.

Most people would agree that information is necessary to make good decisions, whether in government, business or our personal lives. However, sometimes information is hard to come by or has been hidden from view.

One example of "hidden" information is what is missing from every employee's annual W–2 tax form—the employer's share of Federal Insurance Contributions Act (FICA) taxes, which fund the Social Security and Medicare programs.

For seven out of 10 households, the FICA (also known as payroll) tax is the greatest of all taxes they pay, not the income tax. Yet, calls for tax reduction have focused primarily on cuts in the income tax rate.

Why has there been little public outcry over the payroll tax? Part of the reason is that half of the payroll tax is hidden from employees' view. If you've ever taken a close look at your annual W–2 form, you might have noticed boxes which show the amount of Social Security and Medicare taxes withheld from your paycheck. However, these amounts are only your contributions to the payroll tax, which is 7.65 percent of your gross income. Employers must also pay another 7.65 percent in payroll taxes on their employees' behalf, adding up to a total of 15.3 percent of an employee's income which is withheld.

Many workers are probably unaware of this employer contribution to Social Security and Medicare, which also makes them unaware of how much their employment actually costs. It is possible that if the employer was not required to pay payroll taxes, or if the payroll tax was reduced, a portion of this money might go to the employee. Not only does this lack of information hide from employees the true cost of their employment, but it also makes them uniformed about how much of their paycheck funds two government programs which are vital for their retirement security—Social Security and Medicare.

Until the solvency of Social Security and Medicare can be ensured for future generations, it is unlikely that any reduction in the payroll tax will occur. However, we can make sure that employees are informed about the real costs of these programs by requiring W–2 forms to include the employer's share of the payroll tax.

The Right to Know National Payroll Act, (H.R. 1264) which I introduced in March 1999, would give employees vital information on how payroll taxes affect their employment and how much they actually contribute to Social Security and Medicare.

Hundreds of businesses and the State of Michigan have adopted a Right to Know payroll form in an effort to inform and educate their employees. H.R. 1264 would complete the picture for everyone else.

Chairman SHAW. Thank you.

Earl.

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

Mr. POMEROY. Thank you, Mr. Chairman. I want to thank you and other Members of the Subcommittee for the opportunity to appear. Providing the American public with accurate information about Social Security is critical to their own retiring planning, as well as to our success in reforming the program as a whole.

I am here as a note of discord, however. I do not think, in testifying in particular about the bills advanced by Congressman Sununu and Congressman Weller—I do not think that is the way to proceed. There are two reasons I would like to emphasize in my testimony this afternoon.

First, the importance of Social Security statements in helping people with their own individual personal retirement planning decisions must not be underestimated. The statement has been advanced with very specific information about individual earnings records and the benefits of Social Security people can expect. Folks need really concrete information so they can make their own retirement planning.

Second—and not to be confused with that objective—the Social Security debate, which is going to be vigorous and interesting, and in which the Chairman has been a very active and thoughtful participant, should be done up here in Congress, not through misleading, prejudicial comments imposed through legislative mandate on this disclosure form.

Since its creation in 1935, Social Security has proven itself to be simply the most important, successful program, in my view, ever undertaken by the Federal Government. Social Security provides individuals a means to live with dignity in retirement, and protects families from unforeseen events such as premature death or disability.

The four-page individual statement sent to workers ages 25 and older not receiving Social Security benefits I believe has improved this program. These statements help individuals understand how Social Security fits in for their own plan for retirement. They help Social Security maintain accurate wage records. And they educate the public about the program and how it works.

First, relative to assisting workers with retirement and financial planning, this is really extraordinarily important. The Employee Benefits Research Institute, EBRI, estimates that 30 percent of

American workers have no personal retirement savings. Almost 50 percent have never tried to figure out how much money they'll need for retirement.

Given the upward trend in life expectancy, merely hoping and assuming isn't going to actually produce the nest egg people need to have a comfortable income stream in retirement. And so having the hard information out there in a very clear context about this is going to help people plan, and I think also be a very significant incentive to spur additional private retirement savings.

Second, in receiving and maintaining accurate earnings records, Social Security has put on the form a 1–800 number. People look at the earnings record, they look at their records. If there are discrepancies, they get hold of Social Security, they clear it up. It has been a terrific thing for, in a proactive, timely way, making certain that people's individual records of their wage record is squaring what SSA has on file.

And finally, Social Security statements have an education function. They explain Social Security's benefits. They explain the financial relationship of Social Security benefits compared to earnings. They talk about changes in retirement age—and after all, there is a phased-in retirement age that people I think are largely unaware of; it has been moved from 65 to 67. And it talks about the retirement earnings test. And I also, as Congressman Weller noted, applaud you and this Committee for lifting and eliminating the earnings test on the over-65 population.

Now, the Gallup Poll has been used to identify whether or not this statement is getting the job done. And I am very pleased to say we have got a fine report card relative to its accomplishments.

Specifically, individuals receiving a statement are demonstrated to be more likely to know that the amount of Social Security benefits depends upon how much they earn; second, that Social Security pays benefits to workers who have been disabled; third, that Social Security provides benefits to dependents of workers who die; and fourth, that Social Security was designed to replace only part of a total retirement income package.

Now, the problem that I have with the legislation is that they are, at best, confusing. They would add confusing information and convey also a relatively inaccurate picture of the reliability of the future Social Security benefit an individual can assume.

I think that we are confusing policy debate with the vanilla benefits information people need to make their own retirement planning assessments. We just brought this online nationally. We do not want to muck it up with information that will be highly contested, of lower value, and ultimately will diminish the value of this disclosure form for the hard realities the individual household faces.

We will have our debate. We will have it up here. But let us not start, just when we get this so broadly available to our workers, beginning to exploit the disclosure tool to drive policy ends.

And I will be happy to speak more specifically to the policy objectives about the bill, the things that I object to in the bill, during Q and A, if you would like. I am out of time. Thank you very much.

[The prepared statement follows:]

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

Mr. Chairman, Mr. Ranking Member, Members of the Subcommittee, thank you for the opportunity to appear before you this afternoon. I commend you for your attention to this issue. Providing the American public with accurate information about Social Security is critical to their own retirement planning as well as to our success in reforming the program as a whole.

I would like to emphasize two main points in my remarks this afternoon. First, I want to underscore the importance of Social Security Statements in allowing individuals to plan for their own retirement. We must approach any recommended changes to Social Security Statements in that context, rather than viewing them in terms of the debate over reform. Second, I believe we must advance the public discussion of Social Security's future not through these Statements, but through discussions in Congress, with an eye toward development of a comprehensive bipartisan plan to extend the solvency of the program 75 years and beyond.

Social Security—America's Family Protection Program

I would like to begin by making a few remarks about the Social Security program in general and what it has achieved since its creation in 1935. Mr. Chairman, Social Security is simply the most important and most successful program ever undertaken by the federal government. Social Security provides individuals the means to live with dignity in retirement, and protects families from unforseen events such as premature death or disability.

Social Security is the cornerstone of our retirement system—it is the principal source of retirement income for two thirds of the elderly, and makes up 90 percent of the income of about one third of all Americans over the age of 65. Last year, Social Security benefits lifted roughly 15 million senior citizens out of poverty.

Social Security is also America's most successful family protection program. Today, one in three beneficiaries is under the age of 62, receiving either disability or survivor benefits. Almost three in 10 of today's 20 year-olds will become disabled before reaching retirement age, and Social Security provides the only disability protection for three out of four in the workplace today.

Social Security also provides survivor benefits to millions of families coping with premature death. One in six Americans will die before reaching age 67. Social Security helps protect us against the economic effects of such an event by providing survivor benefits equivalent to about a $354,000 life insurance policy.

Mr. Chairman, Social Security has had a very personal impact in the lives of millions of American families, including my own. After my father passed away when I was a teenager, my mother, my brother and I all received survivor benefits. Quite frankly, I have no idea what my family would have done without the protection of Social Security as we tried to regroup after the unanticipated death of my father at a relatively young age.

The Importance of the Social Security Statement

Because Social Security plays such a critical role in every American family, including my own, I believe that Congress has a responsibility to ensure that the information provided to the public is both adequate and accurate. As the General Accounting Office (GAO) noted in its 1996 report, public confidence in Social Security is directly linked to its understanding of the program's benefits. In my view, one of the most critical sources of public information on Social Security benefits is the Social Security Statement.

As you know, Mr. Chairman, last October, the Social Security Administration (SSA) began sending four-page individual statements to workers ages 25 and older not receiving Social Security benefits. The purpose of these Social Security Statements is three-fold. First, they serve a public education function by offering basic explanations of Social Security's benefits, financial status, changes in the retirement age, and the retirement earnings test. The results of a Gallup poll showed that since October, these Statement have played a significant role in increasing Americans' understanding of Social Security. The survey revealed that individuals who receive a Social Security Statement have a much greater understanding of Social Security than those who do not. Specifically, individuals receiving a statement are much more likely to know that (1) the amount of Social Security benefits depends on how much they earned; (2) Social Security pays benefits to workers who become disabled; (3) Social Security provides benefits to dependents of workers who die; and (4) Social Security was designed only to provide part of total retirement income.

Second, Social Security Statements help the Social Security Administration maintain accurate earnings records-each statement lists the earnings that the SSA has on record for that worker and provides an toll-free number to call to correct errors in SSA records. This feature of the Statements is especially critical because Social Security benefits are directly linked to lifetime earnings.

Finally, Social Security Statements assist workers with retirement and financial planning by providing them with an estimate of the Social Security benefits for which they and/or their families will be eligible when they retire, if they become disabled, or if they pass away. In my view, this is one of the most critical functions of the Statements, because it addresses the problem of inadequate savings for retirement.

According to the Employee Benefits Research Institute (EBRI), 30 percent of American workers have no personal retirement savings, and almost 50 percent have never tried to figure out how much money they will need to save for retirement. Given the upward trend in life expectancy, merely hoping and assuming will not result in sufficient savings for retirements that could well span decades. Not surprisingly, additional research has indicated that lack of planning results in substantially lower wealth holdings than households that have done some retirement planning. I believe that annual Social Security Statements can play a critical role in addressing this savings crisis both by providing workers with an estimate of their future Social Security benefits, and in prompting them to examine how much they will need to save in other vehicles, such as employer-sponsored pension plans.

Including Information on Rates of Return

My colleague's legislation would require Social Security Statements to reflect the average rate of return that each individual can expect to receive from Social Security and to compare that rate of return to the rates of return for workers born in every year since 1900. Presumably, the purpose of such information would be to demonstrate to workers that internal rates of return in the Social Security program have varied from one generation to the next. Although rates of return have indeed varied among generations of beneficiaries, that is not in any way a flaw in the program's design. Social Security is an inter-generational program, in which the first beneficiaries naturally received a higher rate of return than beneficiaries today. Workers retiring in 1940, for instance, experienced a higher rate of return than later generations, because they received benefits after only contributing for a few years. The Social Security program was designed as a social insurance system to enable generations of workers to protect each other. Providing information on internal rates of return without discussing that aspect of the program would present an incomplete picture to the American public.

Description of the Social Security Trust Funds.

Mr. Chairman, my colleague's legislation would also require Social Security Statements to include a paragraph to the effect that the Social Security Trust Fund balances "do not consist of real economic assets." On the contrary, Social Security Trust Funds consist of U.S. Treasury bonds, backed by the full faith and credit of the United States, just as are Treasury bonds that are in traded in the market. Furthermore, the United States has never defaulted on any of its financial obligations. Including the statement that the Social Security Trust Funds do not represent real economic assets in individual Social Security Statements would disseminate inaccurate information to the American people, presumably with the intent of undermining public confidence in the program. It would portray the Social Security program as hopelessly bankrupt, when in fact modest prudent changes can make the system solvent for 75 years.

Congress should engage the public through open debate on long-term solvency and Social Security reform.

Mr. Chairman, I strongly believe that the American public should be engaged in the debate about the benefits of the current Social Security system versus any alternatives. But the appropriate context for discussion of changes to a major government program is not in individual Social Security Statements, but rather, through thorough debate in Congress and among the American people.

Personally, I believe that rather than creating a new alternative retirement system, our central goal must be to make the modest reforms that are needed to place Social Security on a sound financial footing for the long term. Along with several of my colleagues, I have cosponsored legislation that would devote the entire Social Security surplus to reducing the federal debt held by the public. Under this proposal, debt held by the public would be reduced $3.1 trillion over the next 15 years and eliminated by 2015. By paying down the publicly held debt, this proposal would dramatically reduces the federal government's interest costs. The proposal calls for the transfer of general fund revenue in the amount of these interest savings to the

Social Security Trust Funds over the period 2011 to 2044 to extend the solvency of the program to at least 2050. I support this measure in the context of Congress' examination of programmatic reforms to extend the solvency of the Social Security Trust Funds for another 75 years and beyond.

Again, regardless of the specific proposal I or other members of Congress support regarding Social Security reform, the fact remains that the most effective and appropriate way for Congress to engage the public in this debate is not through individual Statements but through open discussion of all reform proposals.

Conclusion

Mr. Chairman, as your subcommittee moves forward to consider proposals to increase public awareness of Social Security benefits as well as reforms to the program, I hope that you will consider the effect of revising the Social Security Statement on public confidence in the program and the future of reform. Again, I thank you for the opportunity to share my views, and I would be happy to entertain any questions.

Chairman SHAW. Thank you.
John.

STATEMENT OF HON. JOHN E. SUNUNU, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW HAMPSHIRE

Mr. SUNUNU. Thank you very much, Mr. Chairman. It is a pleasure to testify here today. I want to commend the Subcommittee on the effort it is putting forward to examine how best to inform people about our Social Security system.

Planning for retirement is one of the most important responsibilities that all American workers will face during their lives. And as they make critical decisions in this process, they deserve to have the most up-to-date and accurate information possible.

As part of this effort to provide more information, earlier this year I introduced H.R. 3578, "The Social Security Right To Know Act." It is legislation that would give those paying Social Security taxes accurate and up-to-date information about the taxes they pay and the benefits they can expect to receive, in order to help make them make sound plans for their future.

By expanding access to wage statistics, clearly explaining the status of the Social Security Trust Fund, and disclosing the rate of return on taxes paid, I believe my legislation will better enable individuals to understand what they can and cannot expect the Social Security system to provide for them, and to make sound decisions regarding retirement accordingly.

Mr. Weller has provided, I think, a thorough and detailed description of some of the provisions, the key provisions, of the legislation. And what I thought I might do is at least take a minute or two to address some of the concerns that have or that may be raised regarding the legislation.

I think critics could always argue that a piece of information might confuse someone, somewhere. But at the same time, I think that perspective disregards the fundamental points made at the beginning of this hearing: that knowledge and information represent power, and empower individuals to make good decisions for themselves; and that information ultimately will help consumers to make better decisions regarding their own future.

The suggestion was made that the importance of this information is being underestimated. I think, quite to the contrary. This panel is an indication that the people on this Subcommittee, that those that have introduced legislation here, highly value and highly regard the importance of the information.

We recognize that context can be important. And the work of this Subcommittee and the challenge of this Subcommittee is going to be to make sure that we are building on the value of the existing Social Security statement, that we are providing the best information possible. But that should not take away from the fact that important, objectively provided information in the end is in the consumer's best interests.

And I think, in that regard, access for researchers to have to economic models and actuarial data is in the best interests of not just those researchers, but those who have an interest in Social Security itself; that facts regarding the rate of return that an employee might get on the taxes that they pay is certainly in the employee's best interest; and clarification regarding the nature of the trust fund I think is of great value.

Those on this Subcommittee that understand how the Social Security Trust Fund works I am sure have been frustrated from time to time, not just in talking to the public, but talking to other Members of Congress that might labor under a misconception of how the Social Security Trust Fund even works.

I think these are not just important pieces of information that are keys to good decisionmaking for consumers and good retirement planning for beneficiaries, but ultimately they are also keys to making good decisions in carrying on a substantive debate about reform itself. And therein lies a twofold value to having access to good information.

Today we have a Federal projected surplus over a 10-year period of two, three, even four billion dollars, depending on the economic estimations that are made. But we do have the opportunity to create a dramatically better, more modern retirement Social Security system. Those who have carefully considered the options for reform—among them, the Members of this Subcommittee—recognize that we may have difficult choices ahead, but there is a real need for bipartisan effort. And in fact, that need has never been greater.

I believe that this modest legislation to provide additional information will help workers better understand the system, understand the need for reform, and understand the options that they have for their own retirement security.

I appreciate the time and the effort of all of the Members of the Subcommittee in understanding more about and moving forward this important legislation. And I am happy to assist you with any questions you might have. Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. John E. Sununu, a Representative in Congress from the State of New Hampshire

Thank you, Mr. Chairman. It is my pleasure to testify here today and I would like to commend the Subcommittee for its efforts to examine how best to inform the public about our Social Security system.

Planning for retirement security is one of the most important responsibilities faced by all Americans during their working lives. And as they make critical decisions in this process, they deserve to have the most up-to-date and accurate information possible.

As part of this effort to provide more information to workers regarding Social Security, earlier this year I introduced H.R. 3578, "The Social Security Right to Know Act." This legislation would give those paying Social Security taxes accurate and up-to-date information about the taxes they pay, and the benefits they can expect to receive in order to help them make sound plans for their future. By expanding access to wage statistics, clearly explaining the status of the Social Security Trust Fund, and disclosing the rate of return on taxes paid, my legislation will better enable individuals to understand what they can, and can not, expect the Social Security system to provide for them and to make sound decisions regarding retirement.

This modest legislation will require that additional information be included in the Annual Report of the Trustees of the Social Security Trust Funds and the Personal Earnings and Benefit Estimate Statements—which has been renamed "Your Social Security Statement." It also will allow the Treasury Department's Continuous Work History Sample to be made available to qualified researchers for statistical analysis.

There are three parts to my legislation that I would like to explain briefly:

Part I deals with the Annual Report of the Trustees of the Social Security Trust Funds. My legislation would require the trustees to include addition information in both the report and in the report's summary. Some of this can be derived from information that is already included in the body of the report, but this legislation would require it to be clearly and simply stated in the summary as well. This information includes:

1. The aggregate amount of the unfunded long-term liability of the system, and its change from the previous year's report.
2. The amount of deficit or surplus that the system will run in the last year in the 75-year projection period included in the report.
3. Language explaining the nature of the Social Security trust fund, including the following wording:

"The Trust Funds balances reflect resources authorized by Congress to pay future Social Security benefits, but do not consist of real economic assets that can be used in the future to fund benefits. These balances are claims against the United States Treasury that, when redeemed, must be financed through increased taxes, public borrowing, benefit reduction, or elimination of other Federal expenditures.")

Finally, Part I requires that SSA publish the economic model and all relevant data which they use to make financial projections.

Part II involves the "Your Social Security Statement" statement. This legislation would add three elements to the statement:

1. Each statement would include the information that while Social Security currently collects more in taxes than it pays out in benefits each year, it will begin to run cash flow deficits in 2015. (*The Social Security trust fund will cover the deficit through 2037, but after that point Social Security's tax collections continue to cover only a portion of benefits that it must pay. These dates and percentages shall be adjusted annually based on the findings of the Office of the Chief Actuary.)*
2. Each statement would also include language similar to that in the Annual Report which explains the nature of the Social Security Trust Fund.
3. Each statement will include language explaining the average rates of return that taxpayers can expect to receive their Social Security retirement benefits as compared to the total amount of Social Security retirement taxes that they can be expected to pay. (This language shall include chart 2.1 from GAO report GAO/HEHS–99–110 and the following wording:

"Inflation-adjusted rate of return estimates were more than 10 percent for birth groups born before 1905. They fell below 6 percent for those born in 1920, below 3 percent for those born in about 1940, and below 2 percent for those born in about 1960. They will reach 1 percent for those who will be born in about 2040.")

Part III would allow researchers to gain access to important wage data. The Continuous Work History Sample (CWHS) is a data base compiled by the Treasury Department for the Social Security Administration's use in making economic estimates about the future of programs that the agency administers. It consists of income information over a number of years for a random sample equal to 1 percent of the US population.

This legislation would require the Office of Research and Statistics of the Social Security Administration to make the sample available to qualified researchers who will use it for statistical research only. The Office will be able to require researchers to reimburse all costs and to impose any reasonable conditions to ensure that the data's security is protected. In addition, the Office will be required to take steps to ensure that any identifier that might compromise any individual's identity is removed from the data prior to its being released.

Today, with a projected federal budget surplus of $4.1 trillion over the next ten years, we have the opportunity to create a dramatically better, more modern, retirement Social Security system. Those who have carefully considered the options for reform recognize that the choices ahead may be difficult, but the need for a bipartisan effort has never been greater.

I believe that this modest step of providing fundamental information to the public will help workers to better understand the current system, the need for reform, and the options they have for their own retirement security.

I appreciate the opportunity to appear before you today, commend the hard work of the Chairman and the members of the Subcommittee, who have been steadfast in their efforts to better inform the public about Social Security.

I look forward to participating in this endeavor and would be happy to assist you in any way possible.

Chairman SHAW. Thank you, John.

Mr. Matsui?

Mr. MATSUI. Thank you very much, Mr. Chairman. I am going to ask perhaps a couple of questions. The Social Security Commissioner came out with a form that he distributed, and then GAO made some recommendations. And of course, that form then was revised. And I think, as Mr. Pomeroy suggested, perhaps we should actually allow that to set in for a while and let the American public review that plan. Then if changes need to be made in the future, obviously we would then have that opportunity to look at it, or maybe even make recommendations, since this could be simply an administrative matter.

But I think all of us agree that we want to give the best, most complete information out, so people can make long-term financial planning decisions. And second, if in fact there need to be corrections, they have that information, and then with the 1–800 number they can make those changes and corrections.

The problem I have with some of the legislation that is being discussed is that it sounds like it is an attempt to move public opinion in a way that may be moving to private accounts. Now, I do not want to ever question any motives behind legislative actions, but the fact of the matter is, it would have that tendency, if in fact the information is just rate of return, for example, or if it compares Social Security with, obviously, the stock market, particularly in the last decade in terms of the stock market.

The problem is that information in and of itself is terribly misleading. Because the administrative cost for Social Security is less than one percent. In fact, it is 0.9 percent. And we have had a series of hearings over the last year, year and a half, on the whole issue of Social Security. And this is not really the time to debate the Social Security issue. I mean, we have other opportunities, and we have had other opportunities on that. But this is just to inform the public on those two principles that I mentioned: Financial planning abilities, and certainly to correct mistakes.

But the problem that I see is that, first of all, you have to factor in the unfunded liability, which is over $8 trillion—about five times, or four times the annual Federal budget. And obviously, Social Security does do that; whereas the marketplace, if you had individual accounts, would not do that. And that has to be factored in. It would be misleading to the public if you did not have that $8 trillion and you actually put that into the account.

Second, you know, you could be a day trader and use your individual account, and maybe have very minimal overhead costs; but if you go into the market and hire one of the stock brokers, we estimated—and, you know, there are some variations—but it could be anywhere up to 20 percent, and as low as 10 percent, in terms of the overall cost of maintenance of one's account over a period of years. And if you annuitize that, you are talking about over a 40-year period a rather significant sum of money: Maybe overall, 20, 25 percent of one's entire account.

In addition, I would assume that we want to annuitize. At the end of the day, you want to annuitize whatever money you have, so that you then could pay it out for your life expectancy. And we have talked to some insurance companies. Many do not even carry that, because it is too complex, particularly if you want to put an inflation kicker in there, the CPI. And women in particular need that, because they live much longer than men. But that is anywhere from 15 to 20 percent, minimum, cost. And so you are talking about maybe 20, 30, 40 percent off the top. And so you need to factor that in onto that statement, as well, and maybe make a rather lengthy explanation of why you are adding all those factors in.

And the problem there is that it then becomes somewhat meaningless. It does not give anyone real opportunities to understand what this rate of return is all about. And I think we are going to have testimony from Mr. Salisbury and from Henry Aaron and a number of others in the fifth panel, in which they are going to discuss how complex and perhaps impossible it is to come up with really a rate of return for somebody 30 years old, projecting what it might be when he or she is 65 or 62 or 70 years old. And that is the problem.

I really appreciate what you are all trying to do. We want to give as much information as we can. But I think in the last analysis, unintentionally, you are going to be giving out very, very misleading information that perhaps will create tremendous problems and maybe create people taking actions that they will someday live to regret.

Now, perhaps Mr. Weller, as a Member of the Committee, may want to comment, or anyone else may want to comment on this. But I think it is a serious issue. But we should restrict it really to the issue of the statement, and how the statement will carry out the two principles: That is, financial planning for the individual, and how that individual can correct mistakes.

Mr. WELLER. Sure. Mr. Chairman, if I could respond to my friend Mr. Matsui.

Chairman SHAW. Yes.

Mr. WELLER. And I know Mr. Matsui shares, as I do, a concern for ensuring that workers have a right to know. We have worked together on the issue, addressing particularly the cash balance conversion issue. We have partnered up on legislation that is bipartisan and helps ensure that workers have a right to know, if there is a change in their pension, what it means to them when it is their turn to retire.

And I really believe that this legislation which I have joined and cosponsor with Representative Sununu works toward the same goal. I would point out that the language required on the average rate of return that taxpayers can expect to receive from the Social Security retirement tax payments only would be listed on that form addressing the rate of return on the Social Security tax that is paid. It does not mention requiring any other comparisons.

Mr. MATSUI. If you could just let me respond, what is the purpose of that? Because the idea of the two principles—and I think we all agreed to that when we passed this in the Omnibus Act to have the Social Security Administrator implement this—were to give accurate information, if the information is inaccurate, so that the individual, the recipient, can then make that correction; and two, so the individual can make a determination on future planning.

Mr. SUNUNU. If I could address that?

Mr. MATSUI. Well, if I may just—So why is that relevant, unless you want to make a comparison?

Mr. WELLER. Sure. And I would like to briefly respond, but I want to yield to my——

Mr. MATSUI. You cannot avoid—You cannot now say, "Well, we do not really want them to make that comparison," because that is what this is really all about.

Mr. WELLER. Well, and I am not saying that they should not have a right to compare. You know, I am going to yield in just a second to my friend, Mr. Sununu. But you know, I believe this legislation really salutes the wisdom of the average worker today. I find that workers are increasingly sophisticated when it comes to making plans for their retirement, what the options are.

Mr. MATSUI. Would you agree, then, to put these other points in here that I mentioned? You know, the unfunded costs, the costs of annuitization, the costs of maintenance? Because if we want to respect their intelligence and their judgment, why do we not put all that in there, that if you do invest in the private sector, these are additional costs?

Mr. WELLER. Well, but I would point out that our legislation does not require any statements regarding private sector investments. Essentially, it is very simple. It just points out what the rate of return is on their taxpayer investment. They put an equivalent of 12.6 percent of their income, which is a big chunk of someone's income over a lifetime, that is going into the Social Security Trust Fund. And we believe that they have a right to know what the rate of return is. They are sophisticated.

And let me yield to my colleague now.

Mr. SUNUNU. Yes, if I could make a few points that I think do go directly to concerns that have been raised. First, regarding the unfunded liability, that is also part of this legislation. There are three parts. One puts the information that you raised concerns about—the nature of the unfunded liability—in the report of the Social Security trustees. Because I think that is important information. You raised it.

Mr. MATSUI. Yes, I was only referring to that with respect to the rate of return issue. But you are right. I have not even discussed that other part yet.

Mr. SUNUNU. You talked about the nature of the unfunded liability. You used a figure of approximately $8 trillion, I think, and I have seen similar estimates. And we do think that is important. And that is addressed in this legislation.

There is a second part of the legislation that deals with economic models and actuarial models, and the fact that there is a real value to making those available to researchers.

But regarding the rate of return information, we do not call for a comparison of the rate of return on Social Security to any private sector vehicle.

Mr. MATSUI. Well, why do you have that information in there? I mean, it has to be for a purpose.

Mr. SUNUNU. Well, because the consumer—It does have a purpose. But we are not——

Mr. MATSUI. What is the purpose?

Mr. SUNUNU. If I might——

Mr. MATSUI. Please do.

Mr. SUNUNU [continuing]. At least finish my sentence here. Rather than prejudge a particular vehicle, compare it to a historic rate of return on the stock market, compare it to a historic rate of return on Treasuries. We believe, I believe the consumer is able to make that judgment. Compare it to the rate of return that they get on their savings account. If I can finish——

Mr. MATSUI. Well, no, no. Is that what you want them to do with that?

I have run out of time. And you are my expert. I need to ask you these questions, because I have to make a judgment. Is that what you want them to do, make comparisons? Because if you do——

Mr. SUNUNU. Well, I am trying to answer the question. To make a comparison to the rate of return on their IRA, their 401(k), whether they have a matching plan. I think that rate of return, a fair estimate on the rate of return is of value.

Moreover, it is not merely a prospective rate of return. We include historical information that ought not to be in doubt, what was the historical rate of return for those born in a particular year, or over particular years—prior to 1940, or after 1940 for example. And again, those are technical issues. And I believe that the Subcommittee is able, I hope, to make an objective determination to what extent those kinds of estimates on historic rate of return might be based.

Mr. MATSUI. Yes, thank you. If I could just have your answer on this one question in terms of—since you do acknowledge that the idea is to have them make this comparison—would you put in the annuitization issue? Because they have to annuitization these private accounts. Would you put in the cost of this?

Mr. SUNUNU. Well, amortization?

Mr. MATSUI. Is that something that would be helpful to the general public?

Mr. SUNUNU. What is that? Cost of maintenance for a particular private savings vehicle, a savings account, checking account, or IRA, or 401(k)? We have disclosure regulations. My Fidelity mutual fund——

Chairman SHAW. If we could have in the audience no talking. The young lady down there, I can hear every word you are saying.

Mr. SUNUNU. The mutual funds that you or I might invest in have to disclose the administrative costs of those funds. And I think that is valuable consumer information. So that is already being provided in the private sector. So I think there is a lot of room for discussion about context for determining the range of historical data that might be provided, but I do not think the idea of providing the consumer with information about rate of return is without merit. And I think they can make honest judgments about different private sector vehicles themselves, as they have to do already every day.

Mr. POMEROY. Mr. Chairman, if I might also respond?

Chairman SHAW. Yes, we are going to have to wrap this one up.

Mr. MATSUI. But if I could have this—and I apologize.

Mr. POMEROY. I will be very brief. You know, Mr. Sununu said in his opening statement objectively reported information is important. I agree with that. But the rate of return question really does not capture the value of the disability benefits provided through Social Security, it does not capture the value of the survivor benefit which is loaded in. Those have an absolute value. But if you are just doing a rate of return calculation, that is not reflected. So it is an erroneous figure.

Second, capturing the return over time does not in any way reflect the natural transition dimensions of implementing the Social Security program. Did the first participants in Social Security get a better rate of return than our children will? Absolutely. But that is just the nature of bringing the program like this online, and I do not think any of us would suggest that it should not have been brought online. But bringing a program like this online involves those kinds of variations. Now, putting that into a form without an adequate explanation is going to be highly prejudicial; and what's more, I think, not accurate.

And then finally, they say that they have got to report that the Social Security Trust Fund is not an economic asset. What is the public going to make of that? I do not know what it means. The Trust Fund is funded with Federal Treasuries. And as Chairman Archer has noted in the hearings that I have attended, it is an absolute rock-solid commitment of the Federal Government that has never, ever defaulted.

And so again, this is information that really is not objective information. It does not contribute to anything.

Chairman SHAW. No, I would correct the gentleman. We have had testimony which has been unanimous pretty much with all the experts. The question is, are Treasury bills held by the Federal Government a real economic asset? And the economists tell us "No." That is not my opinion, or anyone else's. That is what the economists tell us. But from the standpoint of the Government's obligation to pay back what it borrowed from Social Security, I agree it is rock-solid.

Mr. POMEROY. For the recipients' standpoint, I think they want to know, "Is this backed by the United States government, and will it be there when I retire?" And I mean, I think the track record is one hundred percent.

Chairman SHAW. I could only answer you this way; that case law tells us that under the existing system there are no vested rights.

I would like to change that. That is the case law. That is not Clay Shaw talking; that is the courts talking. That is why the Congress can change the benefits.

Mr. POMEROY. Mr. Chairman, I look forward in trying to find common ground with you on that question. I look forward, in the event we cannot find common ground, to vigorous debate.

But one thing I do not think we want to do is to put misleading—you know, where one side gets their little comments into this universal disclosure form that needs to provide Americans with hard information about where they are at relative to Social Security so they can plan their own financial savings and retirement.

Thank you, Mr. Chairman.

Chairman SHAW. I am not sure there is any disagreement in the room.

Mr. Cardin?

Mr. CARDIN. I thank you, Mr. Chairman. I am wondering whether there has been a cost analysis done of this bill. Because it seems to me that if we were to enact it, we would have to increase the congressional budget by at least one staffperson an office, to deal with the calls that we are going to get in our congressional offices when this information hits.

We already get a lot of phone calls in our office on Social Security. And I do not know about your office, but my person in Baltimore who handles the calls can spend one-half hour to an hour with one constituent on one issue. And it seems to me, to try to explain the rate of return on their Social Security will be challenging to each Member of Congress.

John, I am trying to figure out your definition of “rate of return.” So let me just see if I can understand. I am going to give you a chance to respond. How would you calculate the rate of return? Someone gets this notice at 30 years of age, let us say. And the information there projects where that person is going to be 37 years later. Are you adding up all the anticipated contributions that individual is making and then using a life expectancy based upon today’s life expectancy, or what we project the life expectancy to be in 37 years for that individual? And do you factor out the two points that Mr. Pomeroy mentioned about the survivor benefit and disability insurance?

Mr. SUNUNU. To your last point first. First, calculating the actuarial benefit of the survivor benefit I think can be done. And to the extent that this Subcommittee or those involved in the final crafting of the legislation think that ought to be considered, I think that is a very reasonable request. But I think that is a technical problem more than anything. And obviously, on an actuarial basis to calculate the value of that part of the program can be done.

Mr. CARDIN. On that point, would you do it based upon the person’s current family status, or the average family status in the country?

Mr. SUNUNU. I think you can calculate the overall actuarial benefit of the program based on its outlays and payments for disability, and back those anticipated future payments out of the trust fund itself and out of the FICA tax base itself, and use an adjusted FICA tax base for calculating rate of return.

Mr. CARDIN. The problem is that if I were to buy a disability insurance policy, it would be based upon my current status, not based upon an average status. So would the Social Security Administration have to figure out what my current status is for a disability insurance policy?

Mr. SUNUNU. No, based on historical payments under the disability program——

Mr. CARDIN. But I'm 30 years old; I'm not married yet.

Mr. SUNUNU. And therein lies perhaps a misleading interpretation of the legislation. What the legislation calls for is including language on the average rates of returns for taxpayers, as compared to the total amount of taxes that they might pay. And again, this gets back to the language, looking at the adjusted rates of return for groups of workers born during different decades, talking about what the forecasted rate of return is for those born after a particular year.

And it is based on average rates of return; because I do not think in the statement it is appropriate to suggest to someone that the Social Security Administration, or anyone else, knows exactly how long they are going to live.

Mr. CARDIN. I think that is a good point. I guess an easier way to get at what you are trying to do—which I disagree with—but I think an easier way would be just to point out what the Social Security system is as it relates to the age of your birth and your average income. Because it is progressive. We make no bones about it being progressive.

Mr. SUNUNU. That is an alternative approach to trying to provide similar information about the nature of the program and the benefits received relative to the taxes paid. And I am perfectly willing to concede that there may be, again, disagreements in the exact context of presenting this information. But I think presenting information in and of itself, and trying to communicate anticipated rate of return for the program as a whole, is not in and of itself a bad idea.

Mr. CARDIN. Yes, but let me make an observation. I understand what you are trying to do. And I think the better way to do it is to use the envelope to include additional information, and not relate it to the individual, because relating it to the individual would be extremely confusing.

But I would also take what Mr. Pomeroy and what Mr. Matsui have said; in that, let us give this a chance to work first. Let us get an evaluation of what we have already done. The information is being sent out. We could include more information if we thought it was useful, and if we could do it in a way that does not try to show any particular bias to any policy objective, but is one to try to get our constituents more informed as to the nature of Social Security. I think we could work on that in a bipartisan way. But I think the way your bill is worded causes many of us to have some concerns.

And I appreciate your patience, Mr. Chairman.

Chairman SHAW. Thank you. I have just run out of patience. [Laughter.]

Chairman SHAW. I would like to thank this panel for being here this morning—"this morning"—this afternoon, excuse me. I will be saying "this evening" pretty soon.

Mr. Commissioner, we have your full statement, which will be put into the record. You may proceed as you see fit.

STATEMENT OF KENNETH S. APFEL, COMMISSIONER OF SOCIAL SECURITY

Mr. APFEL. Thank you, Mr. Chairman. And I will be very brief, for the sake of the length of the hearing. Mr. Chairman, Mr. Matsui, Mr. Weller, Mr. Cardin, Members of the Subcommittee, thank you for inviting me to discuss one of the Agency's premier achievements: The Social Security Statement.

One of our basic responsibilities is to help Americans understand the importance and value of Social Security and how it fits into their long-term financial planning. About 152 million workers support our Social Security system with their tax contributions, and about 45 million individuals receive monthly Social Security retirement, disability, or survivor benefit payments.

The annual Social Security Statement is the best way we have to help people understand the basics of Social Security, and to help them prepare for their long-term financial security. As you know, the statement is the new version of the Personal Earnings and Benefit Estimate Statement that we have made available since 1988. Since '95, we mailed the statement to people by age grouping, and provided more than 70 million to workers age 40 and older through March 1999.

Beginning on October 1, 1999, Social Security launched the largest customized mailing ever undertaken by a Federal agency, when it began mailing out the newly designed statement to 125 million workers over age 25. About a half-million statements are mailed each day, a total of about 10 million each month. Workers automatically receive their statements about 3 months before their birthday.

The statements provide workers with a list of their yearly earnings on record at Social Security, taxes paid, and benefit estimates for the Social Security retirement, disability, and survivors programs. And retirement benefit estimates give workers estimates of projected benefit amounts at age 62, at full retirement age, and at age 70, helping people plan when to retire.

The statements also give workers a chance to review their earnings record on which future benefit payments will be based. And the statement provides general program information, and tells people how to contact us if they have any questions.

The statement has been very well received. Several financial columnists have praised its value as a financial planning tool. And a recent survey shows that more than two-thirds of the people who received the statement were knowledgeable about Social Security, compared to about half of those who did not receive the statement.

One of our goals in designing the new statement was to make it user friendly and easily understood. We have worked very hard to achieve this goal. Focus groups and survey participants, as well as stakeholder organizations, overwhelmingly found the redesigned statement an improvement over its predecessor. I am also proud that the statement received Vice President Gore's Plain Language Award.

Since its release in October, we have made further changes to improve the statement. For example, we included an explanation that the benefit estimate may be different from the worker's actual benefit amount, because of earnings changes in future years or changes in laws governing benefit amounts. And we have included information on the long-term challenges facing the program, including the projected trust fund exhaustion date.

Should further information be included in the statement? As you know, proposed legislation would require Social Security to include an individualized estimate of the rates of return workers would receive on their contributions to the Social Security system. The intent is to provide enough information to let workers compare Social Security with other investments.

When Social Security originally designed the current statement, we considered, but rejected, this idea. Social Security, like other social insurance programs such as Medicare, is not designed in a way that would be appropriately evaluated by individual rate of return estimates. The program is designed to provide a foundation of income for workers and their families when the worker retires, becomes disabled, or dies.

Historically, the program has been judged by the extent to which benefits replace pre-retirement earnings, or how much those benefits help reduce poverty; not by estimates of individual rates of return on contributions. In addition, the General Accounting Office concluded that adding rate of return information could significantly increase the statement's length and complexity, and undermine our efforts to provide a simplified but useful statement.

I believe it is germane to remember that Social Security is a social insurance program, and that individual rate of return information would not capture many complex aspects of the program. These include the fact that Social Security provides not only retirement benefits, but also dependent and survivor benefits; that it is a family program which provides greater benefits for larger families or that assures income replacement rates for lower income workers that are greater than for workers with higher incomes.

Mr. Chairman, in conclusion, let me say that Social Security is committed to making every effort to ensure that the public understands Social Security and its importance to them and their families' financial future. We have, in fact, just announced a new service: An online Social Security retirement planner which will allow people of any age to compute estimates of their future Social Security retirement benefits on our SSA website. The retirement planner provides people with three options, which allow for lesser to greater degrees of sophistication in computing benefit estimates—all with complete privacy.

This new service and other Agency efforts will complement the Social Security Statement, which I strongly believe is our most valuable tool to increase public understanding of our programs and to help people plan for their financial future. The statement explains and makes real to people that Social Security is indeed a foundation on which they can build, together with other investment options, their financial future.

I will be happy to answer any questions that you have at this time.

[The prepared statement follows:]

[Attachments are being retained in the Committee files:]

Statement of Hon. Kenneth S. Apfel, Commissioner of Social Security

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to discuss one of the Agency's achievements of which I am most proud—*the Social Security Statement.*

Background

Social Security touches the lives of virtually all Americans. At least 152 million workers pay into Social Security and more than 44.6 million individuals receive monthly Social Security benefits because they are retired, disabled, or dependent family members or survivors of a worker. Social Security is the largest source of income for most elderly Americans and keeps millions of elderly out of poverty.

Throughout its history, Social Security has made a difference in the lives of Americans, and one of our basic responsibilities to the public is to help Americans understand the value of the Social Security programs and their importance to them and their families. The *Social Security Statement* is the most significant vehicle we have to increase the public's understanding of the basic features of Social Security and enable Americans to prepare for their long-term financial security. As part of our ongoing public education efforts, SSA began in 1988 to issue earnings and benefit estimate *Statements* to individuals who requested them. Since then, SSA has sent about 3 million of these statements annually.

SSA Initiated Statements

In amendments to the Social Security Act in 1989 and 1990, Congress required SSA to send Personal Earnings and Benefit Estimate Statements (PEBES) to workers. SSA was required to mail a PEBES to all workers aged 60 or over in FY 1995; in FY 1996 through FY 1999 to individuals who reach age 60 in those years; and annually to all covered workers age 25 and older beginning in FY 2000. In addition to the PEBES mailing required by law, SSA sent PEBES to increasingly younger individuals in advance of the schedule in the law. SSA sent a PEBES to workers aged 40 and older—about 73 million people—between September 1995 and March 1999.

Beginning October 1, 1999, the SSA launched the largest customized mailing ever undertaken by a Federal agency when it began sending a newly-designed PEBES, now called the *Social Security Statement.* SSA staggers the mailing of the *Statements* throughout the year, with approximately a half million *Statements* delivered each day, a total of about 10 million mailings delivered each month. The *Statements* are mailed so that workers will automatically receive their *Statements* about three months before their birth month.

The *Statements* provide workers with a list of their yearly earnings on record at SSA, information about their eligibility for benefits, and estimates of these benefits. Estimated retirement benefits at age 62, at normal retirement age (the age at which unreduced benefits are payable) and at age 70 are provided. Thus, the *Statements* help individuals decide when to retire and claim benefits. The *Statement* also contains estimated totals of the Social Security taxes that have been paid by the worker and by his/her employer over the individual's working career. The *Statements* provide workers an opportunity to review the earnings (or self-employment income) posted on their Social Security record to ensure their record of earnings is complete and accurate. This is an important feature because the amount of a worker's future benefits will be based on his or her earnings record. SSA also provides general information and explanations to help individuals understand their personal data and how to contact us if they have any questions.

The new *Statement,* like its PEBES predecessor, provides estimates of Social Security retirement, disability, and survivors' benefits that workers and their families could be eligible to receive now and in the future. To design the new form and simplify the language, SSA used extensive public and employee input. The new design is based on the results of testing four prototypes with focus groups in three different age groups (ages 25–35, 36–50, and over 50). We also obtained additional public input through a nationwide mail survey of 16,000 randomly selected individuals from the same age groups. We also received comments from agencies and organizations that represent diverse sections of the public. We found that focus group and mail survey participants alike overwhelmingly found the redesigned *Statement* an improvement over PEBES. Communicating technical and complicated information in a way that is understandable to a diverse public can be difficult, but SSA has worked diligently to ensure that the message in our *Social Security Statement* is clear. I am proud that the *Social Security Statement* received Vice President Gore's Plain Language Award.

I am pleased to report that the results of a recent survey, undertaken at SSA's request, revealed that receipt of a *Statement* has helped in increasing Americans' understanding of Social Security. Sixty-eight percent of the people who recalled receiving a *Statement* were knowledgeable about Social Security, as compared to 53.3 percent of persons who did not recall receiving a *Statement.* The survey also found that individuals who have received a *Social Security Statement* from SSA have a significantly greater understanding of some important basic features of Social Security. Those who have received a *Statement* are significantly more likely to know that (1) the amount of Social Security benefits depends on how much they earned; (2) Social Security pays benefits to workers who become disabled; (3) Social Security provides benefits to dependents of workers who die; and (4) Social Security was designed only to provide part of total retirement income. The survey validates the performance measures we use to track our progress in meeting our "Public Understanding" strategic goal. We track both the increasing numbers of *Statements* we send to the public *and* the increasing public knowledge about our programs. Awareness of the Statement increased from 49.5 percent of the public in 1998 to 62.2 percent (about 125 million Americans) in 1999. SSA's public education activities to announce the Statement appear to have been very successful. This is significant because awareness is the first step to knowledge.

Comments we have received from those who got the new *Statements* indicate that the *Statement* not only helps the public understand the Social Security program but assists in financial planning. In fact, 66% of those surveyed said that the *Statement* would be helpful for that purpose. In addition, the favorable reaction from financial columnists all over the county has reinforced for the public the importance and usefulness of the *Statement.* I have attached to my testimony a number of such columnists' reactions for inclusion in the record.

Since its release in October, we have made further changes to improve the presentation of the material contained in the *Statement.* We have added information about Social Security's future, pointing out that Social Security will be there when workers retire, but that changes will be needed in order to resolve the program's long-range financial issues. We have included an explanation that the benefit estimate may be different from the worker's actual benefit amount because of changes in his or her earnings in future years and any changes that could occur in the current laws governing benefit amounts. We have also included information on the long-term challenges faced by the program, including the date when benefits exceed income and the date of the exhaustion of the trust funds.

We will continue to make changes to the *Statement* as needed. SSA immediately updates the *Statement* for legislative changes, when a new Trustees Report is issued or if an error is detected. At the end of the calendar year, we update the *Statement* to reflect changes in the maximum covered earnings amount, retirement test limitations, and changes to the benefit calculations. In conjunction with these necessary end-of-year changes, we review public reaction, Congressional concerns, and employee input to identify and include suggested revisions and additions to the *Statement* that would make it more useful and understandable for recipients. Of course, in the near future we will be updating the *Statement* to reflect the 2000 Trustees Report and the enactment of HR5, the bill that abolished the Social Security earnings limit for Social Security beneficiaries at or above the normal retirement age.

As we continue our efforts to educate the public about the value of our programs and their role in family financial planning, SSA will be conducting information campaigns throughout fiscal year 2000 encouraging individuals to use the information in the *Statements* to prepare for their financial futures.

Last week, we unveiled a new electronic service to help Americans better prepare for their financial future—an online retirement planner. SSA's online retirement planner will allow individuals to compute estimates of their future Social Security retirement benefits online at the SSA internet website—*www.ssa.gov.*

Our new Internet service, *Social Security Retirement Planner,* will assist workers with their retirement planning by helping them understand the amount of Social Security benefits they can expect in retirement. With this information and with information from their employer about private pensions, workers will be able to make better informed decisions about their family savings and investment needs. Social Security is the foundation on which to build a stable financial future; but a comfortable retirement has always rested on a three-legged financial stool—Social Security, pensions and savings.

To maintain privacy and to protect records from unauthorized users, none of the calculators are linked to individual earnings records or any other information in SSA's database. All benefit estimates are based strictly on input from the users.

The *Social Security Retirement Planner* also walks individuals through the retirement planning and application process. The service offers valuable information on issues to consider when contemplating retirement, what documents are needed when applying for benefits, other potential benefits for the worker or family members, and how and where to apply for benefits.

Cost of Issuing the Statement

The S*ocial Security Statement* is completely funded through SSA's administrative budget (from the Social Security Trust Funds). The cost to produce the annual mailing to 125 million individuals is about $70,000,000 about 56 cents per recipient.

Proposal to Revise the Statement

All of us here today are well aware of the recent debates regarding plans to restore long-term solvency for the Social Security program. As part of the discussions, legislation has been proposed that would require SSA to place on the *Social Security Statement* an individualized estimate of the rates of return workers would receive on their contributions to the Social Security program. The intent of the proposal is to provide information that would enable workers to compare the current Social Security program with other investments. I mentioned earlier in my testimony that SSA conducted extensive surveys to design a *Statement* that is both useful and responsive to the public. Clearly, our goal has been to provide a *Statement* that contains necessary information for the public to understand our programs and plan for their financial futures. As part of that effort, SSA considered but rejected including additional information such as an individualized rate of return on the *Statements.*

In September 1998, the General Accounting Office reported that there was substantial disagreement about whether it is appropriate to apply the rate of return concept to the Social Security program. The GAO report said:

Supporters of such an application point out that a rate of return would provide individuals information about the return they receive on their contributions to the program. However, others contend that it is inappropriate to use rate of return estimates for Social Security because the program is designed to pursue social insurance goals, such as ensuring that low-wage earners have adequate income in their old age or that dependent survivors are adequately provided for. In addition, calculations for rates of return rely on a number of assumptions that affect the resulting estimates. For individuals, the actual rates of return can vary substantially from the estimates due to various uncertainties, such as a worker's actual retirement age and future earnings.

SSA strongly agrees that it is inappropriate to apply individual rate of return estimates to Social Security. Social Security, like other social insurance programs such as Medicare, is not designed in a way that it could be appropriately evaluated by individual rate of return estimates. The program is designed to provide adequate income for workers and their families when the worker retires, becomes disabled, or dies. Historically, the program has been judged by the extent to which benefits replace pre-retirement earnings and how much those benefits help reduce poverty, not by estimates of the individual rate of return on contributions.

Furthermore, the program's full value cannot be accounted for when using individual rate of return estimates. Social Security is more than a social insurance program that protects people when they retire. It also protects workers against other risks over which they have little control. Almost 3 in 10 of today's 20 year-olds will become disabled before age 67 and 1 in 6 Americans will die before reaching age 67. Individuals benefit from Social Security not just through their own worker benefits but through the protection provided to workers' families against these risks. Currently millions of Americans are directly benefiting from that protection: about 1 in 3 beneficiaries is not a retiree but a disabled worker, dependent of a disabled worker or a survivor of a worker who has died.

Our ability to inform workers of the rate of return on their Social Security contributions is limited for several reasons. For example, the Social Security program is a family program that, generally, provides greater benefits to workers with larger families. But our records do not include family linkages until benefit applications have been filed. Similarly, replacement rates for lower income workers are greater than for workers with higher incomes. Without knowing lifetime average earnings or the size of a worker's family, any information provided in the *Social Security Statement* could significantly misstate many workers' actual rate of return. Moreover, any rate of return estimate would be extremely sensitive to periods of unemployment and other related factors.

In addition, the GAO report concluded that adding rate of return information to the *Statement* could significantly increase the *Statement's* length and complexity and undermine SSA's effort to provide a simplified but useful *Statement.* If rate of return estimates were added to the *Statement,* detailed explanations would be required about how the calculations were made, and the assumptions that were used about the individual. In addition, comparisons between rates of return estimates for Social Security and private investments would need to include the transaction and administrative costs and acknowledge the additional risk associated with private investments.

We carefully weighed considerations to include individual rate of return estimates when developing the *Statement.* In addition to finding that individual rate of return estimates are an inappropriate method of representing the benefits' value, we agreed with GAO's findings that adding this information would increase the complexity of, rather than enhance, the *Statement.* Clearly it would not serve the public to provide them with a tool that misrepresents the value of their benefits and is so complex they would need an accountant or an actuary to translate the information.

Conclusion

Mr. Chairman, SSA is dedicated to provide world class service to all of the people it serves. Social Security will continue to play a key role in the lives of Americans when they retire, or become disabled, or die with dependents or survivors. SSA is committed to ensuring that the public understands Social Security and its importance to them and their families' financial future. The *Social Security Statement* has been a valuable tool to increase public understanding of our programs, and explain that Social Security is indeed a foundation on which they can, together with other investment options, build their financial future. Thus, the *Statement* helps people understand not only what Social Security is, but also what it is not. I am very proud of the overwhelmingly positive reaction the *Statement* has received, and we will continue to monitor the public's reaction to it.

I will be happy to answer any questions you may have.

Chairman SHAW. Thank you.

Mr. Matsui?

Mr. MATSUI. Thank you, Mr. Chairman.

I just want to thank you, Mr. Apfel, for your testimony and for the responsiveness to the GAO in terms of the recommendations that they have made. I think this form does appear to be easier to understand and easier to kind of read and figure out, so I think it has served its purpose. And I think you and your office, in working with the GAO, have probably made a better form for the American public.

I know that on the first form you, or at least some group, did some opinion surveys in terms of the impact on the public, what the public might think about, and it was all very positive. Have you begun that with the second form? Or is it too early yet?

Mr. APFEL. We have started that. And we have found a significantly positive response. There is greater knowledge about Social Security and greater knowledge of the key elements of Social Security and the fact that it has disability retirement, and survivors programs; that benefits are based upon what a person's earnings are over the lifetime; that the program is inter-generational; and that taxes paid help support the elderly, and so forthetera. So we are finding a growing understanding of Social Security. That is issue number one for us.

Issue number two, then, is, how do we help people plan for their own financial futures? And again, I think we are finding a majority of Americans view this as a helpful document to help them personally plan for their financial futures.

We will continue to do survey information. But we really believe two and three and 4 years from now that this will have an increasing impact on the American public to help them plan for the future.

Mr. MATSUI. And last, in terms of making sure that you were not biased and your office was not biased in preparing this form, what kinds of checks did you use? You know, because obviously, we are going to be reforming the system.

In fact, you had stated in your statement to the American public that it will be unfunded by 2034. And obviously, it is an issue, what system we are going to be moving to over the next few years. How did you ensure that there was no bias one way or the other?

Mr. APFEL. Well, we conducted a number of focus groups. We did mailings with thousands of Americans. We listened to comments. We reached out to organizations, to take a look at what we were trying to provide. And we assimilated all that information to provide what I believe is good, solid information for American consumers.

The General Accounting Office was quite critical of the form years ago, and said that, "This has got to be simplified so that individuals can use it to help in their own personal financial planning." And I believe we have met that test. I believe this is good, solid information that has gone through a number of focus groups, surveys with the American public, discussions with organizations, and we are very proud it. As I earlier stated, the form has been praised by several financial columnists as a valuable planning tool.

I must say, one of my personal greatest prides is this statement. I think that it is one of the best things that we have done for years for the American public. It is important for their own financial planning; but also, we now include information about the long-term challenges that the system faces: The 2015 date, when revenues start to be less than anticipated expenses; the 2034 date, now 2037; the percentage of benefits that can be funded after that period of time. This is information to help people understand what Social Security is, but also to provide some strong caveats that there is a need for change in the future.

We hope this will complement our other efforts. And we are very proud of what we do.

Mr. MATSUI. Thank you. Thank you, Mr. Chairman.

Chairman SHAW. Mr. Collins?

Mr. COLLINS. Thank you, Mr. Chairman.

Mr. Commissioner, how are you today, sir?

Mr. APFEL. How are you?

Mr. COLLINS. Fine. I apologize for being a little bit late. I got in on the tail-end of your comments, and was trying to read through them hurriedly.

On the annual statement, I was trying to find the annual cost— Oh, here it is, 125 million individuals; $70 million.

Mr. APFEL. That is correct. About 56 cents per letter. And that includes not only the mailing cost and the processing cost, but the fact that we now receive about two million to two and a half million extra inquiries a year about the statement. So people are calling to say, "Give me more information."

Also, the corrective actions. There are about a half-million requests to change the earnings records on the statement. In other words, someone will call in and say, "In 1977 I had earnings, and it doesn't show up here." So it is very important for people to be doing that now, rather than waiting until the day before they are going to retire.

Mr. COLLINS. Right.

Mr. APFEL. So there are about a half-million of those. So all of those costs together—not only the mailing cost and the distribution cost, but the telephone calls and the corrective actions—are all about $70 million, 56 cents per mailing.

Mr. COLLINS. OK. Well, now, do you see some point in time in the future—this will be an annual review now, an annual statement—that the time might be extended to maybe every 2 years or every 3 years, once you kind of get people into the system and they understand and have had an opportunity correct those measures; that then we could maybe reduce the costs by extending it out some?

Mr. APFEL. Mr. Collins, I do not disagree with the notion that in the future, some time in the future, there may be a need to send this less than every year, particularly for the youngest recipients. I would say that we are several years away from making that assessment.

I would not recommend it at all right now. But we may find after two or three or four or 5 years that individuals have now read it; they are now keeping it in their financial folder; every year they have got the information. Possibly, for some groups, particularly younger workers, it might be better at that point in time to have it be, say, every other year.

I would also say that in the future, particularly for older workers, that we may want to expand this some, to provide better information for individuals as they get near retirement, to give them better information about their own dates about when to retire.

So I would see that this always will be an evolving document. Every year, I would like to be able to assess, "How do we make improvements in the document? How do we reach out better to the American public? Should we customize the information to different age brackets?" I think those are all good things for us to be looking at.

Right now, I would agree with Mr. Matsui and Mr. Cardin. I would not recommend major changes this year, until we have had a year or two under our belt.

Mr. COLLINS. To get a feel for it.

Mr. APFEL. But in the long run, that might make sense.

Mr. COLLINS. OK. Well, good. Now, you can also go to your website and get a lot of this information, too; is that not true?

Mr. APFEL. You can go to the website. We have just announced the creation of a new retirement planner, where an individual can compute estimates of their retirement benefits. However, they cannot get this same information directly from the planner, because it is not directly tied into our private records.

Mr. COLLINS. OK.

Mr. APFEL. The decision was made two to 3 years ago not to provide access to that information, until privacy could be assured.

But we now have three separate calculators that people can use to go with a number of economic assumptions, or different options in the future, to be able to make their own projections based upon future wages, what their disability benefits might be, what their government pension offset might be—a whole series of different things, that we think is a very good service for the American public.

Mr. COLLINS. Well, that is good. That is really the only question I had. And I know it is out in the future that we have to look at that.

I want to say thanks, too, for Bill Halter and your other staff, who jumped in here about 10 days ago when we had a truck that broke down that had 125,000 checks on it headed for Georgia.

Mr. APFEL. And Mr. Collins, where was that truck? I know we found it.

Mr. COLLINS. I think it was in Charlotte; wasn't it? The last I heard.

Mr. APFEL. I believe so. And you alerted us, and we jumped, and so did the Post Office. And we got right on it, and we fixed the problem.

Mr. COLLINS. You sure did. And I appreciate that very much, and so do the people that I represent. Thank you.

Mr. APFEL. Thank you, sir.

Chairman SHAW. If that truck was headed for Florida, the state would have closed down. [Laughter.]

Mr. APFEL. That is right.

Chairman SHAW. Commissioner, I would just like to make one possible suggestion with regard to the statement that you do send out: It is almost too slick. And I say that in a complimentary way——

Mr. APFEL. We will take it.

Chairman SHAW. Because as you are reading through it, you do not realize when you get down to your own personal information. And if I were going to change it, I would say, well, put all of this text first, and then put the individual's information on one page, so they know when they are getting down to information about themselves. I think probably a lot of people sort of wear out before they get to it, and do not realize this is a personal statement about them.

But the information is good, but the transition into the personal—I say that because I was reading my own statement that I got a couple of months ago. And I kept saying, "Is this about me?" And I sort of skimmed it, because I felt I knew most of this stuff—At least, I hope I did. Maybe I should read it carefully. [Laughter.]

Mr. APFEL. Mr. Chairman, I know you do.

Chairman SHAW. But you know, when I got to my own personal stuff I sort of said, "Oh, that is me." Because there is nothing on there that looks like you are getting to a typewriter or something that has been filled in that is personal about the individual. That is the only comment that I have.

Mr. APFEL. Well, Mr. Shaw, it is our goal to continually find ways to make this better. The General Accounting Office, in testimony you are about to hear, will consider it to be a much improved document that meets its purpose for basic information. And it also indicates the statement is probably not the right vehicle for a rate of return discussion, which I think is appropriate—that I believe is the right decision: It should not be in there.

But they also make a series of suggestions. And you have just made another one. And we need to assess those every year to determine how to improve the system.

Chairman SHAW. OK. That is not meant to be a criticism. It is just a suggestion as to how I read the statement, where I was sort of looking for my own personal stuff, and then realized I was in the middle of it by the time I got through it.

We thank you very much for being here, and congratulate you on the progress you have made. Thank you.

Mr. APFEL. Thank you, sir.

Chairman SHAW. Now we are going to hear from the United States General Accounting Office. We have got Barbara Bovbjerg.

And Barbara, I am going to learn to pronounce your name correctly one day, instead of always having someone jump up and tell me, whisper it in my ear.

She is the Associate Director of Education, Work force, and Income Security Issues; Health, Education and Human Services Division.

And Ms. Bovbjerg is accompanied by Kay Brown, the Assistant Director of Education, Work force, and Income Security Issues; the Health, Education and Human Services Division. And by Ken Stockbridge, who is a senior evaluator, Education, Work force, and Income Security Issues; Health, Education and Human Services Division.

Welcome. We have your full statement, and it will be made a part of the record. And we invite you to summarize as you wish.

STATEMENT OF BARBARA D. BOVBJERG, ASSOCIATE DIRECTOR, EDUCATION, WORKFORCE, AND INCOME SECURITY ISSUES; HEALTH, EDUCATION, AND HUMAN SERVICES DIVISION, U.S. GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY KAY BROWN, ASSISTANT DIRECTOR; AND KEN STOCKBRIDGE, SENIOR EVALUATOR

Ms. BOVBJERG. Thank you, Mr. Chairman, Members of the Subcommittee. I am pleased to be here today to discuss information the public should have about Social Security, and how that information could be provided.

Specifically, I would like to address the role that the individualized Social Security statement plays in providing that information. Beginning this year, the Social Security Administration must provide such a statement to almost every U.S. worker over age 25. Hence, this statement can be a primary means to convey important Social Security related information to a broad range of American workers.

I would like to organize my remarks by describing three broad types of information the public should have about the Social Security program, and discussing the role of the individualized statement for each type.

First, basic information about program benefits. Individuals need information about what benefits they can expect from Social Security for their personal financial planning. Workers should also be informed that their Social Security benefit levels depend upon their average lifetime earnings, and that the benefits are meant to be a foundation for retirement income, not a replacement for pensions and other forms of saving.

The individualized statement is one of the key vehicles for providing such basic information. As such, it represents not only an important tool for workers' financial planning, it also provides the means for program participants to check SSA's records of their past earnings.

Because the statement reaches a wide audience and is the only direct communication that many workers will have with SSA until they retire, the statement must communicate simply and clearly. It has not always done this. SSA's programs are complex, and it can be challenging to explain them in simple, straightforward language, without providing so much information that it overwhelms the reader.

In GAO's review of earlier versions of the statement, we recommended that SSA make revisions to shorten it, to improve its layout and design, and to simplify its explanations. The newly revised format of the statement is indeed shorter and better organized, and thus communicates more effectively.

Let me turn now to the second type of information individuals need. The public should also understand the financial status of the Social Security program. Knowing this helps workers to understand that in the future some combination of revenue increases and benefit reductions will be necessary to restore solvency, and that they should view their personal benefit estimates in that context.

In the most recent version of the statement, SSA has indeed added information on this topic, explaining that, absent a change in law, payroll taxes will fall short of paying full benefits owed. More technical and detailed financial information is available in the Trustees' Report and the annual financial report of the U.S. Government.

These reports are widely used by experts and specialists, but the information they contain would be difficult to convey clearly in the statement without confusing general readers. For this reason, such technical information should not be included in the individualized statement, but should be readily accessible to those who request it.

Let me now discuss the third type of information the public should have. In addressing the Social Security solvency problem, the public needs understandable, independent, and objective information to appreciate the difficult choices our Nation faces. To this end, as you know, GAO has developed criteria to help provide balance and structure to evaluating reform proposals. The criteria balance the extent to which proposals would achieve sustainable solvency with the adequacy and equity of the benefits structure, and with the feasibility of the implementation and administration. We have observed the importance of balancing the criteria, and have stated that no single criterion should be considered in isolation.

Some participants in the reform debate focus especially on the implicit rate of return as a primary indicator of program success, and have called for rate of return estimates to be included in the individualized statement. Substantial controversy surrounds applying the rate of return concept to Social Security, with some arguing—and we have heard that today—that such a concept is inappropriate to a social insurance program.

GAO has reported that rate of return estimates are inherently very uncertain, especially for specific individuals, because such rates vary with life expectancy, earnings, and family size. We have also observed that it is crucial to compare such returns only with those for comprehensive reform proposals. To be clearly understood, then, any published estimates should include an explanation of how they are calculated, the degree of uncertainty that would pertain, and what they can be compared to.

In our view, adding rate of return information to the statement would make it longer and more complex, and could undermine its purpose. Ultimately, such information should be provided as part of a broader evaluation of reform proposals, and in a context that focuses on reform options, not benefit disclosures.

In conclusion, the public should have easy and timely access to a wide range of reliable, consistent, and verifiable information. The Social Security statement has come a long way toward more successfully meeting its purpose of providing basic information for individual workers. However, it is not the right vehicle for the complex technical information that requires extensive and complicated explanation.

That concludes my statement, Mr. Chairman. We will be happy to answer any questions you have.

[The prepared statement of follows:]

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

Statement of Barbara D. Bovbjerg, Associate Director, Education, Workforce, and Income Security Issues, Health, Education, and Human Services Division, U.S. General Accounting Office

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me here today to discuss information the public should have about Social Security and strategies for providing that information. Social Security touches the lives of virtually all our nation's citizens. Last year, it paid $386 billion in benefits to over 44 million beneficiaries, including aged and disabled workers and their dependents and survivors. Ninety percent of elderly households received Social Security benefits, and 17 percent of such households received no income other than Social Security. Moreover, Social Security collected $460 billion in payroll taxes from over 150 million workers, or 96 percent of the nation's workforce. Currently, 12.4 percent of workers' covered earnings are paid in payroll taxes, divided equally between workers and their employers. Clearly, to help in their personal financial planning, our citizens should know where their Social Security payroll taxes go and what benefits they can expect to receive. In addition, Social Security faces a significant long-term financing shortfall because of the aging of our population and other demographic and economic trends. The public should also have the information it needs to participate in the debate about Social Security's future.

Today I would like to discuss the three broad types of information the public should have about the Social Security program—basic information about program benefits, the current and projected financial status of the Social Security program, and information about proposed changes to the program. For each type of information, I would like to focus on what role the individualized Social Security Statement might play in providing it. My testimony is based on work we have done over the past few years [1] and an assessment of the most recent statement.

In summary, the individualized Social Security Statement currently plays a specific and important role in providing some, but not all, of the information the public needs. First, individuals should have clear and easy to understand information about what benefits they can reasonably expect to receive. This is the specific and primary purpose of the Social Security Statement, which is now sent annually to nearly all working participants. In addition, the statement helps individuals and the

[1] See the list of related GAO products at the end of this statement.

Social Security Administration (SSA) ensure that individual earnings records are accurate, which in turn is crucial to providing accurate benefit payments. SSA has recently revised this statement so that it more effectively conveys this important information. Second, the public should understand the current and projected financial status of the Social Security program. The Social Security Statement now contains a brief disclosure about this, but technical and detailed information about it is more appropriately conveyed through other vehicles, such as the annual Trustees' Report[2] and the federal government's consolidated financial statements. Third, the public should have information to help it evaluate different proposals to restore solvency and make other program changes. However, such information is complex and must be presented in a fair, consistent, and comprehensive way that helps the public weigh and balance the various difficult choices that must be made. This type of information goes beyond estimating benefits and verifying earnings, which is the Social Security Statement's central purpose. Given the difficulties SSA has had in making just this information clear in the statement, adding information on reform proposals would likely make the statement lengthy, more complex, and even more difficult to understand. Doing so could undermine the basic purpose of the statement.

Background

The Social Security trust funds have a projected financial shortfall or funding gap of approximately $3 trillion over the next 75 years. This long-term financing problem is largely a result of greater life expectancy, lower birth rates, and the forthcoming retirement of the baby-boom generation. Social Security is financed primarily on a pay-as-you-go basis, which means that current workers pay current retirees' benefits. Today, there are approximately 3.4 workers for every beneficiary, and by 2030 this number is projected to fall to 2.1. Thus, in the foreseeable future relatively fewer people will be paying into the system and more people will be drawing benefits.

Restoring Social Security's long-term solvency will require some combination of increased revenues and reduced expenditures. Various options are available within the current structure of the program including raising the retirement age, reducing inflation adjustments, increasing payroll tax rates, and investing trust fund reserves in higher-yielding securities. In addition, some proposals would go beyond restoring long-term solvency and would fundamentally alter the program structure by setting up individual retirement savings accounts and requiring workers to contribute to them.

Public Should Have Basic Information on Estimated Benefits to Plan Personal Finances

Individuals need basic information on the Social Security program for their personal financial planning. This information includes what benefits workers can expect for themselves, their dependents, and their survivors when they retire, become disabled, or die. In addition, workers should understand that their benefits depend on their average lifetime earnings.[3] Finally, they should also understand that Social Security is meant to be only a foundation of retirement income. Social Security does not guarantee a benefit that meets the poverty threshold. Therefore, if workers know what benefit levels they can expect given their earnings history so far, they can better understand how much to save to meet their retirement income goals.

SSA's individualized Social Security Statement is one of the key vehicles for providing the public with this basic information about Social Security. It provides workers with an important tool for personal financial planning because it provides estimates of potential retirement, disability, and survivor benefits. It also asks statement recipients to check SSA's records of their past earnings. In this way, the statement can help SSA correct errors in agency records and help ensure that benefit payments are correct when workers retire, become disabled, or die. It also explains that Social Security benefits were not intended to be the only source of retirement income and encourages workers to supplement their benefits with a pension, savings, or investments. This statement reaches a very wide audience; starting in this fiscal year, SSA is sending the individualized Social Security Statement annually to almost every U.S. worker aged 25 and older—an estimated 126 million people each

[2] *The 2000 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds,* Mar. 30, 2000.

[3] The benefit formula calculates average lifetime earnings after adjusting earnings for inflation and growth in average real wages.

year.[4] (The statement can be found on SSA's website at *http://www.ssa.gov,* where workers can also request personalized statements.)

Because it reaches such a wide audience and is the only direct communication many workers will have with SSA until they retire or become disabled, the statement must communicate simply and clearly. It has not always done this. SSA offered benefit statements to some workers long before this fiscal year, and we reviewed the agency's 1996 version. At that time, we raised concerns about its usefulness.[5] We reported that although the public felt the statement could be a valuable tool for retirement planning, the statement provided too much information and failed to communicate clearly the information its readers needed to understand SSA's current programs and benefits. We found that the six-page statement was too long for many readers, the purpose was unclear, and the design and organization were not user-friendly. The statement was disorganized—it contained a patchwork of explanations scattered throughout, requiring the reader to flip from one page to another to find needed information. Finally, feedback from the public and SSA staff indicated that readers were confused by several important explanations, such as those describing family benefits and credits needed to be eligible for benefits. We recommended that SSA revise the 1996 version of the statement to improve its layout and design and to simplify explanations. We also recommended that SSA evaluate and test alternative formats for the statement.

Consistent with our recommendations, SSA embarked on a multi-year effort to revise its statement. The agency developed four different prototypes and conducted focus groups to assess layout and presentation preferences and how well the material presented was understood. SSA then conducted a public opinion survey of the four prototypes. Based on this information, SSA chose for its fiscal year 2000 mailing a new four-page layout.

We believe this new statement is much improved. It is shorter, better organized, easier to read, employs good design principles, and in a number of cases, provides simpler explanations. The revised statement more effectively achieves its intended purpose of providing important basic information on the Social Security program as well as individualized information on earnings on record at SSA and estimated benefits. In fact, SSA reports that in a recent survey to measure public understanding of its programs, workers who received the statement have a significantly greater knowledge of the Social Security program than those who did not receive a statement.

Naturally, further improvement is always possible. Working with our communications consultants, we have identified some remaining rough spots. These include:

- *Clarity of purpose:* We believe that SSA could more clearly and quickly spell out the statement's purpose and inform readers that the agency wants them to take some action—that is, check their earnings as listed on the statement and inform SSA of missing or incorrect information.
- *Explaining inflation-adjustment of benefit estimates:* The statement explains that the estimates are provided in "current dollars." However, readers may not understand what this means for their financial planning. It means that the estimates reflect today's price level, not the price level that will exist when they actually start to receive benefits.
- *Some explanations still unclear:* Other explanations, such as the one regarding the credits required for benefit eligibility may still leave the reader confused.[6] Also, the revised statement no longer cautions recipients that the estimates are based on their own individual earnings records and may also depend on their spouses' earnings if they have spouses.

SSA's programs are complex, and it is challenging to explain them in simple, straightforward language without providing so much information that it overwhelms the reader. SSA will need to continue to revise and streamline the statement to make it more clear and easy to understand.

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[4] See 42 U.S. C. 1320b–13. SSA must send a statement to those who are 25 years old, have a Social Security number, have wages or earnings from self-employment, are not receiving Social Security benefits, and have a current address obtainable by SSA.

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

[6] Credits are earned by working for employers who pay taxes to the Social Security system. The minimum number of credits needed varies, depending on the type of benefit and the age of the worker.

Public Should Have Information on Social Security's Current and Projected Financial Status

The public also needs to understand the fundamentals of Social Security financing, including the program's current and projected financial status. Workers should understand that their contributions are not deposited into interest-bearing accounts for each individual but are credited to the Social Security trust funds, which are largely used to pay for current benefits. Under current law, the trust funds must invest any surplus in interest-bearing federal government securities. In addition, workers should understand that though significant surpluses are currently building up the trust funds to help pay future benefits, this situation will deteriorate over time. According to the most recent trustees' intermediate projections, benefit payments will exceed cash revenues in 2015, and the trust funds will be depleted in 2037. At that time, revenues would only be sufficient to pay for roughly 72 percent of promised benefits. Knowing this helps workers to understand that some combination of revenue increases and benefit reductions will be necessary to restore solvency. In turn, workers can better understand how to view their personal benefit estimates.

Some recent proposals to provide information to the public call for the Social Security Statement to more fully disclose Social Security's long-term financial outlook, the status of the trust funds over time, and the effect on SSA's ability to pay future benefits in the absence of changes to the program. In its most recent version of the statement, SSA has added information on this topic. On the first page, as part of the message from the Commissioner, the statement now provides basic information on the demographic reasons for the financing problems and on the future status of the trust funds, including the date that the trust funds will be exhausted. On the page where the benefit estimates are provided, the statement explains that when this date arrives, absent a change in the law, payroll taxes collected will be enough to pay only a portion of the benefits owed.

However, according to our communications experts, the information is somewhat confusing and contradictory, though it could be fixed. The Commissioner's message first reassures readers that "of course" Social Security will "be there" when they retire and then provides the information about the future financing problems and the resulting percentage reduction in benefits. The statement explains that SSA is "working to resolve these issues" and offers a booklet with more information upon request. Overall, the explanation may leave readers wondering how SSA can be sure the program will be there to pay the benefits they are expecting in the future. The status of the trust funds and the need for change can be clarified with minor adjustments in wording. However, the statement does not need to go into excessive or technical detail; not every reader of the statement will need or be interested in this additional detail. If statement recipients want more information, they can request the booklet listed in the statement. This booklet, which is written in simple, straightforward terms for a wide audience, provides additional information on the reasons for the financing shortfall and the difficult choices needed to ensure long-term program stability.

More technical and detailed information on the status of the trust funds is available, however, in a number of vehicles that are used extensively and studied by a more narrow audience of experts and specialists. These include the annual Trustees' Report and the annual *Financial Report of the United States Government.* To be most effective and useful to the broadest audience, the information in these reports needs to be reliable, consistent, accessible, timely, verifiable, and complete. We have recently noted a problem related to their timing and consistency.[7] The Financial Report uses data from the previous year's Trustees' Report although a new Trustees' report with sometimes significantly different numbers is issued at nearly the same time. The discrepancies between the two reports may cause confusion, which can serve to reduce confidence in and the credibility of the government's annual financial report. Steps should be taken in future years to ensure that the government's Financial Report contains up-to-date information. In addition, given the importance and materiality of this information, the Comptroller General has stated that the time may have come for this information to be subject to audit.

In addition, information on the magnitude of the trust funds' financial gap should focus not only on the next 75 years but also beyond that to help focus on sustainability. The conventional 75-year measure of solvency is highly transient because the 75-year period changes by one year in each successive year's projections. Currently, the years early in the 75-year period have surpluses while the years at the

[7] Auditing the Nation's Finances: Fiscal Year 1999 Results Continue to Highlight Major Issues Needing Resolution (GAO/T–AIMD–00–137, Mar. 31, 2000).

end of the period have large deficits. As a result, changes made to restore solvency only for the current 75-year period will result in future actuarial imbalances almost immediately. Therefore, in addition to examining the 75-year actuarial balance, examining Social Security's percentage of the federal budget, the size of the imbalance in the 75th year, and the trend in the annual balance at that time would help focus attention on the issue of sustainability.

Public Should Have Information to Help It Evaluate Options for Restoring Solvency

To address Social Security's long-term solvency problem, a wide and often confusing variety of proposals have been offered. To participate in the reform debate, the public needs understandable, independent, and objective information that can help it appreciate the difficult choices that the nation faces. We have concluded that three broad criteria help provide balance and structure to evaluating the alternatives. These are 1) the extent to which proposals would achieve sustainable solvency, including how they would affect the federal budget and the economy; 2) the balance of adequacy and equity in the benefits structure; and 3) the feasibility of implementation and administration.[8] Adequacy refers to the level and certainty of benefits, and equity refers to the relationship between the contributions made and benefits received, sometimes referred to as "money's-worth." No single criterion should be considered in isolation, and taken together these criteria highlight the difficult trade-offs that exist between efforts to achieve solvency and to maintain adequate retirement income for current and future beneficiaries.

Some participants in the reform debate focus especially on individual equity and on one particular measure of equity—the implicit rate of return workers can expect on their Social Security contributions. Accordingly, some recent proposals call for the Social Security Statement to include estimates of the implicit rate of return. However, substantial controversy surrounds applying the concept of rates of return to Social Security.[9] Some analysts argue that rates of return on contributions would be much higher under a new system with individual accounts, and they would like the public to compare its return on Social Security to returns available on market investments. Other analysts contend that the rate of return concept should not be applied to Social Security because it is a social insurance program and is not designed to provide returns on contributions.

In our work on this topic, we have observed that rate of return estimates are inherently very uncertain, especially for specific individuals, because of the many complex factors that affect rates of return. Such factors include how long individuals will live, how much they will earn, and what size families they will have. To be clearly understood, Social Security rate of return estimates need an explanation of how they are calculated and how uncertain the estimates are. Also, instead of making simple comparisons between Social Security and historical market returns, one should make any rate of return comparisons among comprehensive return estimates for specific reform proposals that include all costs and benefits of any individual accounts as well as the Social Security components of the resulting system. In addition, such estimates would not help individuals plan their personal finances because, under current law, they do not have the choice of putting their contributions into alternative investments. Moreover, providing estimates of the implicit rate of return on Social Security contributions could mislead readers to think they have an interest-bearing account under the program, which they do not. Adding rates of return to the Social Security Statement—or for that matter any information that is not directly relevant to the statement's purpose—would make the statement longer and more complex and could undermine its important and specific purpose of providing benefit estimates and verifying earnings records.

Concluding Observations

Given the importance of Social Security to the financial security of most Americans and the value of citizen participation in the difficult reform decisions that lie ahead, the public should have easy and timely access to a wide range of reliable, consistent, and verifiable information. Much of this information is already available; however, questions have been raised about the best vehicles to use to make sure the information is available to as wide an audience as possible. Reasonable people can disagree about the best vehicle, particularly for the more complex or technical information. However, we believe the Social Security Statement is not the right vehicle for this more technical information, such as rates of return. The newly revised

[8] Social Security:Criteria for Evaluating Social Security Reform Proposals (GAO/T–HEHS–99–94, Mar. 25, 1999). Also, see the list of related GAO products at the end of this statement.

[9] Social Security: Issues in Comparing Rates of Return with Market Investments (GAO/HEHS–99–110, Aug. 5, 1999).

statement more successfully meets its purpose of providing basic information to individual workers. Adding the explanations necessary to fairly portray rate of return information would likely increase the statement's length significantly and undermine efforts to shorten and simplify it, thereby running the risk that recipients will not read or fully understand it.

Mr. Chairman, this concludes my prepared statement. At this time, I will be happy to answer any questions you or other Members of the Subcommittee may have.

GAO Contact and Staff Acknowledgments

For information regarding this testimony, please contact Barbara Bovbjerg at (202) 512–7215. Individuals making key contributions to this testimony include Kay Brown, Ken Stockbridge, Elizabeth O'Toole, and Kimberly Granger.

Related GAO Products

Auditing the Nation's Finances: Fiscal Year 1999 Results Continue to Highlight Major Issues Needing Resolution (GAO/T–AIMD–00–137, Mar. 31, 2000).

Social Security Reform: Information on the Archer-Shaw Proposal (GAO/AIMD/HEHS–00–56, Jan. 18, 2000).

Social Security: The President's Proposal (GAO/T–HEHS/AIMD–00–43, Nov. 9, 1999).

Social Security: Evaluating Reform Proposals (GAO/AIMD/HEHS–00–29, Nov. 4, 1999).

Social Security Reform: Implications of Raising the Retirement Age (GAO/HEHS–99–112, Aug. 27, 1999).

Social Security: Issues in Comparing Rates of Return With Market Investments (GAO/HEHS–99–110, Aug. 5, 1999).

Social Security: Implications of Private Annuities for Individual Accounts (GAO/HEHS–99–160, July 30, 1999).

Social Security: Capital Markets and Educational Issues Associated with Individual Accounts (GAO/GGD–99–115, June 28, 1999).

Social Security Reform: Administrative Costs for Individual Accounts Depend on System Design (GAO/HEHS–99–131, June 18, 1999).

Social Security Reform: Implementation Issues for Individual Accounts (GAO/HEHS–99–122, June 18, 1999).

Social Security: Criteria for Evaluating Social Security Reform Proposals (GAO/T–HEHS–99–94, Mar. 25, 1999).

Social Security: Individual Accounts as an Element of Long-Term Financing Reform (GAO/T–HEHS–99–86, Mar. 16, 1999).

SSA Benefit Estimate Statements: Adding Rate of Return Information May Not Be Appropriate (GAO/HEHS–98–228, Sept. 2, 1998).

Social Security: Different Approaches for Addressing Program Solvency (GAO/HEHS–98–33, July 22, 1998).

Social Security Financing: Implications of Government Stock Investing for the Trust Fund, the Federal Budget, and the Economy (GAO/AIMD/HEHS–98–74, Apr. 22, 1998).

Social Security: Restoring Long-Term Solvency Will Require Difficult Choices (GAO/T–HEHS–98–95, Feb. 10, 1998).

SSA Benefit Statements: Well Received by the Public but Difficult to Comprehend (GAO/HEHS–97–19, Dec. 5, 1996).

Chairman SHAW. Thank you.

Bob?

Mr. MATSUI. Thank you, Mr. Chairman.

I just have one question. Has the Social Security Administration pretty much responded to most of the issues that you raised in response to their initial form? Do you feel satisfied that it pretty much carries out the mandate—I shouldn't use the word "mandate," but the recommendations that you have suggested?

Ms. BOVBJERG. Well, we are very pleased with the new version of the statement. It is shorter. We have gone from six pages to four pages. It is better organized. It is well designed. It is easier to read.

I think that the focus groups and the consultants that the Agency used clearly served them well.

As you will see in the written statement, we do have some things that we think could still be done better. There is always room for improvement. But we thought that this was very responsive, and a big improvement from the last version.

Mr. MATSUI. Thank you.

Chairman SHAW. I would like just to draw a parallel here with information overload. The Federal Government has for years been dictating how much information it has to get when you get a loan, when you get a mortgage. And I can tell you, having been the attorney for a number of banks before I came here, and having recently, not too long ago, had a loan closed myself that I signed onto, by the time you get to about the third or fourth required document, people's eyes are just glazing over. And you know, even though they say that they understand, you know that they just do not have a clue; they just want to sign everything, get their money, and get out.

And I think that there is no question but that if you do overload these statements, that you are going to lose the value of them. And I think that is something we have to be very, very cautious about. And that is something I am concerned about as far as all of the disclosures. Those are wonderful things to have. And perhaps we should be looking at the Trustees' Report and make that a little clearer and more concise and a little compact and more consumer-friendly for people that are going to be wanting to review it. I think those are very important things.

Do you have any comment on that?

Ms. BOVBJERG. We have considered some of the Trustees' Report information and some of the things that are provided in that. And we think that it is really for a different audience; that it is widely used by experts and analysts, and certainly should be made easily and readily accessible to people who want to see it; but it is not necessarily a document that you would want to have the Plain Language Award for and that you would want to send out to everybody.

I think that you want to be sure that there is technical information in that document that the specialists and Members of Congress need to make some of these decisions; and you want to be sure that people can get it who would like to see it. I think that having the website reference and the 800-number in the statement is a step in that direction.

Chairman SHAW. Thank you. Thank you for being here.

Ms. BOVBJERG. Thank you.

Chairman SHAW. We now have a panel, and I will read your names in the order in which you appear. Dallas Salisbury is the president and chief executive officer of the Employee Benefit Research Institute.

Richard—Is it "Thau"?

Mr. THAU. "Thau."

Chairman SHAW. Thau—the "H" does not come into it—is president of Third Millennium, New York, New York.

Gary Fazzino, the director of Federal public policy at Hewlett-Packard Co., on behalf of the Alliance for Worker Retirement Security.

Hans Riemer is the director of the 2030 Center. Is that “REE-mer” or “RI-mer”? “REE-mer”? I got that one right.

Ron Geb—Whoa.

Mr. GEBHARDTSBAUER. It took me 8 years: “Gebhardtsbauer.”

Chairman SHAW. The senior pension fellow, American Academy of Actuaries.

Henry Aaron, Dr. Henry Aaron, who is a senior fellow, economic studies, at Brookings Institute.

Joan——

Ms. ENTMACHER. Entmacher.

Chairman SHAW. This is really something. What happened to “Smith” and “Jones”? They are not with us.

Joan is the vice president and director of family economic security of the National Women’s Law Center.

And David C. John, who is a senior policy analyst, Social Security, from the Heritage Foundation.

Mr. Salisbury, you may proceed.

Will you hand the microphone down to Mr. Salisbury?

And as I have stated for the previous panels, we do have your full statement, which will be made a part of the record.

STATEMENT OF DALLAS SALISBURY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, EMPLOYEE BENEFIT RESEARCH INSTITUTE

Mr. SALISBURY. Thank you, Mr. Chairman and Members of the Committee. The Institute has undertaken survey work for now nearly 20 years on public knowledge regarding Social Security, and has found significant areas of knowledge gaps.

Probably the most important are absence of public understanding of the level of benefits that they can expect from Social Security, as well as the age at which they will be eligible.

Our first survey in 1990 on the retirement age issue showed that the vast majority of Americans underestimate the age of eligibility for full benefits. And our 1999 survey—I emphasize, 1999—found that only 16 percent of Americans realize that the Social Security retirement age is moving above the age of 65. And nearly a third believe that full Social Security benefits are already available, or will be, below the age of 62.

Turning to the Social Security benefits statement then, the importance of it in helping individuals understand these two critical points—how much they might expect to receive in benefits, or frankly, even a reasonable estimate; and second, at what age they will be eligible for what amount of benefit—if the statement accomplishes nothing else, it will have fundamentally increased public understanding of these important programs. And in that the statement does and will help correct these two fundamental shortcomings.

I would add per the statement and the earlier discussion on frequency, that, if anything, we might consider that the statement should begin going to individuals younger than the age of 25, which is the current cutoff. And as opposed to the suggestion in testimony that frequency might be made less frequent for the young, I would suggest, if anything, the most important group to receive the statements are in fact the young, so they might come to understand how relatively small Social Security benefits are—in fact, it is intended to be a floor of income—and be, as a result, incented to have the ability to begin saving and the necessity of saving early.

In terms of the content of the statement, one thing that came out of the delegates of the Choose To Save Forum on retirement security and personal savings here in Washington last week was a firm recommendation that the statement actually be somewhat expanded, even with only a sentence or two, directing individuals to where they might go for additional information on retirement planning and on savings calculations to help them get started.

Second, vis-a-vis the warning language that is in the letter at the front of the statement, to possibly actually put a little more of that in the personal information; so that there is a bit of a caveat, and that people understand that these benefit amounts are simply an estimate, and that estimate could in fact change based on many, many factors—some of their own control, and others of political control.

Third has been the discussion and legislation related to expected rate of return being added to the statement. Our work simply finds it difficult, in the context of a social insurance program with many benefits, to understand—and we have done much work trying to figure out how one could do a reasonable statement to individuals of rate of return—exactly how to do that in a way that would not be highly misleading. And to this point, even on a total program basis, we have been unable to come up with that methodology.

Recent studies have been published; for example, a recent study from the Heritage Foundation that both had a national average and congressional district averages. And even looking at the methodology there, the numbers are highly misleading in terms of the way they deal with current Social Security Trust Fund balances and taxes.

Now, they have disclosed that methodology, so one might say it is not misleading. But the care one would have to take to read all of the disclosures in order to come to that conclusion is far more than it would be possible to include in that individual statement without, like the loan documents, making it far more complex than one would ever deal with.

Regarding the Trustees' Report, it does provide a tremendous amount of disclosure information, including issues as one goes through the final tables and appendices on issues of risk to the system and long-term tax rates necessary to finance the system. It would be possible to add some additional data there, but our assessment, again, is that adding rate of return information might in fact lead more to misunderstanding that to enlightenment.

In conclusion, it has been a pleasure to be here today and to provide some insights. We would be happy to provide full reports of all of our 22 surveys on Social Security, including we have a retirement confidence survey—our tenth—in the field as we speak, to collect new information on public understanding, that hopefully will provide some insight as to whether or not those who have already received their statements show a higher level of understanding than a year ago. Thank you.

[The prepared statement follows:]

Statement of Dallas Salisbury, President and Chief Executive Officer, Employee Benefit Research Institute

Mr. Chairman, and members of the Committee. I am Dallas Salisbury, President of the Employee Benefit Research Institute (EBRI). EBRI is a non-partisan, non-lobbying research and education organization based here in Washington, DC.

It is my pleasure to appear before you today to discuss efforts to inform the public on Social Security. EBRI published and distributed its first consumer education brochure on Social Security in 1979; its first study of Social Security in 1982; undertook its first public opinion survey on Social Security in 1990, and the most recent in 1999. Our opinion research has made it clear that the public does not have a good understanding of crucial details of Social Security; our publications seek to increase that understanding.

Rating the Social Security Administration

Our surveys show the Social Security Administration was given a "fair" rating by the public in 1990 on how well it kept Americans informed about the program. Two-thirds of respondents in 1990 were not aware that action had been taken to increase the normal retirement age to 67 beginning in 2000. (EBRI-Gallup Survey Number 7, February 1990).

Expected Benefits from Social Security and Support

Our 1994 survey found that 71 percent did not expect (correctly) to get as much out of Social Security as they had paid in; and 46 percent agreed that taxes would have to be raised in the future to pay benefits in the future. (EBRI/Gallup Survey Number 56, April 1994) Our Retirement Confidence Surveys from 1992 through 1998, which have asked a consistent question about confidence in Social Security providing benefits of equal value, have consistently shown one-third to be confident and two-thirds not confident about the future value of their benefits. Yet, the surveys also find that two-thirds voice strong support for the program. Surveys suggest that the public understands that their parents and grandparents rely upon Social Security benefits.

Public Knowledge Gaps

The most significant areas in which public knowledge is lacking relate to how much Social Security will provide in the way of a benefit, and at what age. Surveys consistently support two statements: First, the public is more likely to overestimate the amount they will get from Social Security than to underestimate it; and, second, few yet know that the normal retirement age—as enacted by Congress—is now in the process of moving up from 65 years and two months to 67. Only 16 percent of respondents in our 1999 Retirement Confidence Survey knew when they would be able to get full benefits; 59 percent cited an age too early; 5 percent an age too late; and 19 percent simply noted that they did not know. (EBRI Issue Brief Number 216, December 1999)

The Social Security Benefit Statement

The annual Social Security statement, noted in the press release on this hearing from Chairman Shaw, arrived in the mail for my wife last month. It provided us with an estimate of what benefits would be available to my wife under the current program, at alternative ages, and a full earnings and tax payment history. The earnings and tax payment history was accurate. It focused on the fact that full benefits would be at the age of 66, not 65. And, it focused us on the fact that we will need to save a lot of money to supplement Social Security in order to live as we would like to.

The statement provides important information that will help correct the two most serious areas of low knowledge among the public. First, it gives a clear picture of the Social Security benefit that you might expect to receive. Our work suggests that the vast majority of Americans will be struck by how small the benefit will be, and will be motivated to save. The history of public commentary on Social Security has—unfortunately—been a description of a program that "allows you to retire;" that's unfortunate because far too many Americans have wrongly thought this meant it would provide them with an adequate retirement income, rather than just a base. This may well be a reason that only one-third of those now retired did any assessment of either their expected income or expenses prior to taking the step of retiring, and only 52 percent of workers have yet done so. Hopefully, the statement will serve to increase that number in the future. Second, the statement gives a clear picture of your retirement age options and the benefit implications. This should provide people with an incentive to work longer, an incentive to save more, or both, as the recipient will now know that the normal age for full benefits is above age 65, and moving to 67. For many Americans, this statement may give them the first indication of how little their parents or grandparents are currently living on, since over two-thirds of retirees essentially have Social Security as their only income source.

Should the Statement Provide More Information?

The hearing announcement from Chairman Shaw also raised the question of whether the Social Security statement might provide more information than it now does. I am aware of three areas that have been discussed for additional information.

First—as was endorsed last week by delegates to the Choose to Save Forum on Retirement Security and Personal Savings—would be the addition of information on where to go for online and print retirement planning assistance. This would include Internet URL's for such resources as the Ballpark Estimate Retirement Planning Worksheet.

Second would be the addition of "warning" language on the benefit amount, so that the worker knows that taxes may eventually have to be increased in order for the stated benefit to be paid, or that a reduction in the statement benefit may be required if the Congress and the president were not willing to raise the necessary taxes or otherwise appropriate funds. Some have suggested that this "disclosure of risk" should note that current economic projections imply a future reduction of Social Security benefits of up to one-third of stated values. For more than 20 years, EBRI publications have encouraged full and complete disclosure of the nature of pension risk. For private defined benefit and defined contribution pension plans, this relates to disclosure of the risk of lower benefits due to bankruptcy, investment losses, unanticipated increases in life expectancy, etc. For Social Security, this relates to economic risk and insufficient tax revenue due to unanticipated factors such as a quick increase in life expectancy. Disclosure of risk serves to further encourage personal savings and retirement planning.

Third would be the inclusion of an "expected rate of return on taxes paid" number. I have reviewed studies on this subject since the very first report was published in the late 1970's. I am yet to see one that is not misleading, including some comparative research published by EBRI. I allowed EBRI to publish the comparative work on the theory that all the numbers were consistently misleading, but did allow a constrained comparison of the present Social Security design with a number of reform options. I do not believe that including such a "rate of return" number would be a helpful addition to the Social Security statement, as it would not be possible to explain all the ways that it is misleading.

For instance, I noted that my wife received her statement. In theory, it would allow a calculation of her personal return, were the system not an "intragenerational" system. Both of us, however, have living parents who rely on Social Security. Mine are now 86 and 83, and were it not for their income from Social Security, I would be paying part of their living expenses directly. Instead, the taxes I pay to Social Security get mailed to my parents. How can that accurately be factored into my rate of return? Such an individual-by-individual assessment would be very expensive and difficult, if not impossible, without substantial invasion of personal privacy. Disability and survivor benefits in theory can be adjusted for in the rate-of-return calculation when doing analysis on case studies, but to provide a realistic number to each worker would require an individual-by-individual assessment of all of one's family members. Such is the problem that arises in a social insurance program with multiple components and multiple generations, and it makes a simple or objective "rate of return" number impossible to produce or virtually meaningless.

Additional problems can arise in calculation as well. For example, a recent article by the Heritage Foundation attempts to calculate rates of return for stylized individuals from the Social Security Old-Age and Survivors Insurance Program (OASI). Aside from the worthiness of calculating rates of return discussed above, the paper made a crucial economic assumption that immediately leads to a lower rate of return being calculated for all individuals. This crucial assumption is that all payroll tax revenue in excess of benefits paid in each year that has accumulated in the Social Security Trust Fund, and is expected to continue to accumulate there until 2015, is assumed to be never paid out as benefits. Instead, in their calculations, payroll taxes are increased to equal the benefits to be paid in each year after 2014. Under this assumption, approximately $2 trillion is counted as contributions in their report, but none of this revenue is counted as paying Social Security benefits. Therefore, it is quite easy to show small rates of return when $2 trillion are counted as contributions but not as benefits, and instead more contributions are "required" to be raised to pay those benefits that are directly associated with the first $2 trillion in contributions. Consequently, either the revenue that has accumulated or will accumulate in the Trust Fund must be counted as paying benefits—or not counted as contributions—to gain a potentially honest measure of rates of return for the OASI program. I say "potentially" because of broader issues noted previously. If a reader did not carefully examine the assumptions and calculations of the Heritage paper, a seriously incorrect interpretation would be taken away from the report.

Thus, the assumptions used in any model need to be clearly disclosed and understood to allow individuals to correctly evaluate any results emanating from that model. The ability to even attempt to provide such full disclosure on the Social Security statement would turn it into a book, not a statement.

The Trustees Report

EBRI has also published regular reports based upon the reports issued by Trustees of the program. The late 1980s brought the publication of a "summary" report by the Social Security program, which provides a much clearer picture for the public, and that report continues to be improved. Now, www.ssa.gov provides a wealth of information on demand, which can also be obtained in printed form from the agency. Analysts have suggested over time that reporting by the Trustees could be improved with dynamic estimates that presented future possible outcomes as more than just three possible static projections, as is currently done today.

EBRI has supported the development of a model that allows such dynamic analysis, and has published a number of studies based upon that model, which is also now being used by the Social Security Administration, the General Accounting Office, the AARP, and others, to aid in their analysis of the present system and reform proposals. Prior testimony to this committee was based upon our use of the model. Other organizations have developed models as well. Because of their complexity, the most important thing to assure is full disclosure of all assumptions so that model results can be put into context and can be fully evaluated.

Additions to the Trustees Report

The addition of rate of return information has also been suggested for the annual Trustees report. For the reasons previously articulated, I do not believe that this is possible in a form that would inform more than it would mislead.

Conclusion

It has been my pleasure to appear before the Committee today. I offer the Committee the assistance of the Employer Benefit Research Institute and the American Savings Education Council as you continue your work, which is vital to the economic security to all working and retired Americans, and to millions of survivors.

Chairman SHAW. Thank you.
Mr. Thau.

STATEMENT OF RICHARD THAU, PRESIDENT, THIRD MILLENNIUM, NEW YORK, NEW YORK

Mr. THAU. Thank you, Mr. Chairman, for inviting Third Millennium to participate in this dialog on Social Security, the largest program in the Federal budget. In announcing this hearing, Mr. Chairman, you asked whether the information being provided to taxpayers about Social Security is "accurate, understandable, and useful." My short answer to each of these questions is "Maybe, yes, and partially."

Let me explain. First, for a young worker, the retirement benefit projections on the Social Security statement are probably not accurate. This is because the calculations take a worker's current salary and project it forward at its current level for decades. Many workers receive salary increases as they age, so a benefit calculation based on a typical young worker's present compensation is probably artificially low. However, since Social Security, according to the trustees, will only be able to pay approximately three-quarters of the benefits currently being promised to my generation, this low number could actually, and accidentally, turn out to be accurate.

Second, I believe that the benefit statement is understandable to a lay person.

Third, the statement is only partially useful to young adults. Let me explain why this is so, and how it would be far more useful. First, the Social Security statement indicates that "Social Security benefits were not intended to be the only source of income for you and your family when you retire. You need to supplement your benefits with income from a pension plan, savings, or investments."

This is a critically important bit of information; yet it could be strengthened. I suggest adding the following personalized text: "In order to maintain an adequate standard of living in retirement, you will need an annual income of approximately 70 percent—" 7–0 percent "—of the amount you make before you retire. Social Security, according to the projections and depending upon the age you retire, will provide you only 'X' or 'Y' percent of the income you need. If you were to rely solely on Social Security for your income in retirement, you would be living near the poverty level."

If you made that point clear in that statement, that if you were to rely only on Social Security in retirement you would be living at or near the poverty level, that would be, to use the phrase, hitting people over the head with a frying pan about how important it is at a young age to start saving and investing for retirement.

Second, while the statement indicates how much a worker has paid in FICA taxes to date, and estimates what benefits that worker may receive in old age, it does not indicate how many thousands of dollars in FICA taxes that worker will pay from now until retirement in order to receive those benefits.

Third, the statement does not indicate, using figures from the latest Trustees' Report, how much a worker's annual benefits could shrink if Social Security is not reformed between now and the time he or she reaches ages 62, 67, or 70.

Fourth, the statement does not estimate what advanced age one needs to attain in order to receive back the value of one's lifetime contributions.

Fifth, many adults of all ages do not understand how Social Security works, and it would be useful to explain that there is no interest-bearing account with their accrued benefits sitting in a government office somewhere; rather, the statement should say that FICA taxes paid today are used to finance the retirement, disability, and survivor benefits of current recipients. Future benefits will be provided by the tax dollars of workers in the future.

Moreover, citizens will benefit from a better understanding of the status of the Social Security Trust Fund. As the Office of Management and Budget acknowledged last year, "These balances are available to finance future benefit payments only in a bookkeeping sense. They do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures."

Mr. Chairman, I would be remiss if I did not point out the "pink elephant" in the hearing room today. While improving the Social Security statement is important and can provide useful information to members of my generation, Congress would be doing far more important work if it set itself on the task of reforming the entire Social Security system in advance of the "Baby Boom" generation's retirement. America's leaders are wasting precious time. There is no national plan whatsoever to accommodate the massive retirement and health needs of this generation.

For the good of America's future, Congress and the President should act expeditiously to fix Social Security and Medicare. If you do not, future generations will rightly wonder why you waited so long, and only tinkered at the margins. Thank you.

[The prepared statement follows:]

Statement of Richard Thau, President, Third Millennium, New York, New York

Thank you, Mr. Chairman, for inviting Third Millennium to participate in this dialogue on Social Security, the largest program in the Federal budget.

My name is Richard Thau. I am the president and co-founder of Third Millennium, a national, non-profit, non-partisan group of Americans born after 1960. We are based in New York City.

My colleagues and I have appeared before Congress 18 times over the past six years, testifying on the need to overhaul Social Security and Medicare. We greatly appreciate the opportunity to once again serve as a voice from within our generation on these vital issues.

In announcing this hearing, Mr. Chairman, you asked whether the information being provided to taxpayers about Social Security is "accurate, understandable and useful." My short answer to each of these questions is "maybe, yes and partially." Let me explain.

First, for a young worker, the retirement benefit projections on the Social Security Statement are probably not accurate. This is because the calculations take a worker's current salary and project it forward, at its current level, for decades. Many workers receive salary increases as they age, so a benefit calculation based on a typical young worker's present compensation is probably artificially low. However, since Social Security, according to the Trustees, will only be able to pay approximately three-quarters of benefits currently being promised to my generation, this low number could actually, and almost accidentally, turn out to be accurate.

Second, I believe that the benefit statement is understandable to a layperson.

Third, the statement is only partially useful to young adults. Let me explain why this is so, and how it could be far more useful:

a) The Social Security Statement indicates that "Social Security benefits were not intended to be the only source of income for you and your family when you retire. You need to supplement your benefits with income from a pension plan, savings or investments." This is a critically important bit of information, yet it could be strengthened. I suggest adding the following personalized text: "In order to maintain an adequate standard of living in retirement, you will need an annual income of approximately 70% of the amount you make before you retire. Social Security, according to our projections and depending upon the age you retire, will provide you only X to Y percent of the income you need. If you were to rely solely on Social Security for your income in retirement, you would be living near the poverty level."

b) While the statement indicates how much a worker has paid in FICA taxes to date, and estimates what benefits that worker may receive in old age, it does not indicate how many thousands of dollars in FICA that worker will pay *from now until retirement* in order to receive these benefits.

c) The statement does not indicate—using figures from the latest Trustees report—how much a worker's annual benefits could shrink if Social Security is not reformed between now and the time he or she reaches ages 62, 67 and 70.

d) The statement does not estimate what advanced age one needs to attain in order to receive back the value of one's lifetime contributions.

e) Many adults—of all ages—do not understand how Social Security works, and it would be useful to explain that there is no interest-bearing account with their accrued benefits sitting in a government office somewhere. Rather, the statement should say that FICA taxes paid today are used to finance the retirement, disability, and survivor benefits of current recipients. Future benefits will be provided by the tax dollars of workers in the future. Moreover, citizens would benefit from a better understanding of the status of the Social Security Trust Fund. As the Office of Management and Budget acknowledged last year, "These balances are available to finance future benefit payments. . .only in a bookkeeping sense. They do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits, or other expenditures."

Mr. Chairman, I would be remiss if I did not point out the "pink elephant" in the hearing room today. While improving the Social Security Statement is important, and can provide useful information to members of my generation, Congress would be doing far more important work if it set itself on the task of reforming the entire Social Security system before the Baby Boom generation retires.

America's leaders are wasting precious time. There is no national plan to accommodate their massive retirement and health needs of the generation that is ahead of mine. For the good of America's future, Congress and the President should act expeditiously to fix Social Security and Medicare. If you don't, future generations will rightly wonder why you waited so long—and only tinkered at the margins.

Thank you.

Chairman SHAW. Thank you.

Mr. Fazzino.

STATEMENT OF GARY FAZZINO, DIRECTOR, FEDERAL PUBLIC POLICY, HEWLETT-PACKARD COMPANY; ON BEHALF OF THE ALLIANCE FOR WORKER RETIREMENT SECURITY

Mr. FAZZINO. Thank you, Mr. Chairman, and Mr. Matsui, my fellow Californian, who shares an abiding affection for Stanford University along with me.

I am Gary Fazzino. I am director of Federal public policy for Hewlett-Packard. Today I am testifying on behalf of the Alliance for Worker Retirement Security, of which Hewlett-Packard is a member. AWRS is a coalition of more than 30 organizations that support Social Security reform which will put our Social Security system on a sound financial footing and offer all workers the opportunity to create wealth by investing a portion of their Social Security payroll taxes in regulated funds.

I want to commend you and your colleagues for your hard work on Social Security reform, and for this hearing. Hewlett-Packard has long believed that reforming Social Security is a critical public policy issue that needs immediate attention.

Over 3 years ago, the company initiated an effort to provide educational materials to our employees about the future of Social Security and Medicare. HP produced a pamphlet that was distributed to all 65,000 HP workers in the United States, and a copy of that pamphlet is provided to you with this statement. And at the time, our chief executive officer, Lew Platt, indicated that he wanted all HP employees to be better informed about decisions that could impact their future.

HP had an overwhelmingly positive response from our employees, many of whom wanted to continue receiving updated information. Other employers and employer trade associations have joined in this educational effort.

The National Association of Manufacturers has dedicated significant resources to informing employers and employees about the Social Security issue, including launching the AWRS coalition last year. Included in your materials is a NAM-created calculator with which a worker can compare his or her promised Social Security benefit with a reformed program.

Some companies have begun including the employer's share of FICA taxes on the worker's pay stub. And most large employers now give workers an annual report of all payroll taxes paid, employee and employer share. There are many such examples of educational efforts, but indeed much more needs to take place.

The Social Security statements now being sent annually by the Social Security Administration to nearly all workers is a very good first step. We applaud Congress and the SSA for making these statements available. Workers appreciate receiving them, and it gives employers the perfect opportunity to supplement the statements with additional information.

Now, what more do workers need to know? They need to be given a clearer understanding of how Social Security is financed, and the challenges facing us ahead. Believe it or not, tens of millions of workers still think that there is a government account with their name on it into which payroll taxes are deposited. They believe that during their working career the money accumulates, and then is then disbursed to them during retirement.

This is what is behind the oft-heard statement at HP from our employees, "It is my money, and I am entitled to it." Little do they know that the taxes they pay today are immediately transferred to today's retirees. The Social Security statement should be made more clear in this regard.

Likewise, the Social Security statement gives the impression that the excess payroll taxes are deposited into a Trust Fund that acts like a bank account. Relatively few workers understand that the trust fund holds no cash, but contains IOUs that must be redeemed with future taxes if promised benefits are not [sic] to be paid.

HP and other employers in this country are willing to help in this educational effort. Information about the Social Security system must be factual, accessible, and presented in such a way that it is both technically accurate and not misleading to the American public.

AWRS strongly supports H.R. 3578, Senate Bill 2364, and Senate Bill 2294, and other measures that will help educate our workers. We also strongly suggest that Members of Congress follow in the footsteps of their colleagues who have held Social Security townhall meetings in their districts.

No matter what reform measure you support, the more your constituents—in other words, our workers—understand about the issue, the more Congress will be doing the will of the people, and the people of this country will be able to accept the very difficult decisions that you have to make in the future regarding Social Security.

AWRS member organizations and Hewlett-Packard stand ready to help you. Thank you very much.

[The prepared statement follows:]

Statement of Gary Fazzino, Director, Federal Public Policy, Hewlett-Packard Company, on behalf of the Alliance for Worker Retirement Security

Good Afternoon. My name is Gary Fazzino and I am Director of Federal Public Policy for Hewlett-Packard Company located in Palo Alto, California. Today, I am testifying on behalf of the Alliance for Worker Retirement Security (AWRS), of which Hewlett-Packard is a member. AWRS is a coalition of more than thirty organizations that support Social Security reform which will put our Social Security system on a sound financial footing and offer all workers the opportunity to create wealth by investing a portion of their Social Security payroll taxes in regulated funds. A large number of AWRS members are employer-based trade associations, such as the National Association of Manufacturers, the Retail Federation, the Business Roundtable, the NFIB, and others.

I want to commend you and your colleagues for your hard work on Social Security reform and for this hearing in order to review the type, accuracy and amount of information that is, or should be, available to Congress and the public in the area of Social Security.

Hewlett-Packard has long believed that reforming Social Security is a critical public policy issue that needs immediate attention. We believe HP has a responsibility to provide our workers with accurate information on their long-term financial security, including Social Security. Over three years ago, we initiated an effort to provide educational materials to our employees about the future of Social Security and Medicare. HP produced a pamphlet that was distributed to all 65,000 HP workers in the United States. A copy of that pamphlet is provided to you with this statement. In a cover letter to HP employees, then-Chairman and CEO Lewis Platt, wrote:

"You may wonder, 'What is HP's motivation?' First and foremost, it is to help you be better informed about decisions that could impact your future. By thinking about these issues today, you may be in a better position to plan for your retirement. In addition, the time is right to let others know what you would like to see happen with Social Security. . I hope that you will share your views with us and with others, including your elected representatives who will be making key decisions affecting the future. . ."

HP had an overwhelmingly positive response from our employees, many of whom wanted to continue receiving updated information. Other employers and employer trade associations have joined in this educational effort. The National Association of Manufacturers has dedicated significant resources to informing employers and employees about the Social Security issue, including launching the AWRS coalition last year. Included in your materials is an NAM-created "calculator" with which a worker can compare his/her promised Social Security benefit with a reformed program. Some companies have begun including the employer's share of FICA taxes on the worker's pay stub, and most large employers now give workers an annual report of all payroll taxes paid, employee and employer share. There are many more examples of educational efforts, but much more needs to take place.

Why is it so important for employers to help educate workers? The Social Security system is like a train that we know will soon be derailed—but not all of the passengers on board are aware of the wreck ahead. The cost to our workers, retirees and our entire economy could be severe. Before a wreck—in other words, before our workers, retirees, and our economy are derailed from their expected destination—we must redirect the train onto a stronger, sustainable track.

The Social Security Statements now being sent annually by the Social Security Administration (SSA) to nearly all workers are a good first step. We applaud Congress and the SSA for making these statements available. Workers appreciate receiving them and it gives employers the perfect opportunity to supplement the statements with additional information.

What more do workers need to know? They need to be given a clearer understanding of how Social Security is financed and the challenges facing us ahead. Believe it or not, tens of millions of workers still think that there is a government account with their name on it, into which payroll taxes are deposited. They believe that during their working career, the money accumulates and is then disbursed to them during retirement. This is what is behind the often heard statement: "It's my money and I'm entitled to it!" Little do they know that the taxes they pay today are immediately transferred to today's retirees. The Social Security Statement should be made more clear in this regard.

Likewise, the Social Security Statement gives the impression that the excess payroll taxes are deposited into a trust fund that acts like a bank account. The statement explains the trust fund in this way: "The excess funds are credited to Social Security's trust funds which are expected to grow to over $4 trillion before we need to use them to pay benefits.” Is it any wonder that workers believe their payroll taxes are being held in an account for benefit payments later? Relatively few workers understand that the trust fund holds no cash, but contains IOUs that must be redeemed with future taxes if promised benefits are to be paid.

We applaud Congress for no longer spending the excess payroll taxes and using them instead to buy down public debt. This is good for the economy and is a necessary step forward, absent real reform of the system. However, statements from Congress and the White House such as: “We are going to save every penny of Social Security and not spend it,” only fuels this misperception of the existence of a savings account.

HP and other employers in this country are willing to help in the educational process. Information about the Social Security system must be factual, accessible and presented in a way that is both technically accurate and not misleading to the American public.

What do we recommend? AWRS strongly supports H.R. 3578, the “Social Security Right To Know Act,” sponsored by Congressman Sununu, S. 2364, a similar bill introduced by Senators Santorum and Gregg, and other measures that will help educate our workers. We also strongly suggest that members of Congress follow in the footsteps of their colleagues who have held Social Security Town Hall meetings in their districts. With outside experts brought in to explain the problems ahead, these Members have found the meetings to be extremely helpful in educating their constituents and the press.

The fact is that no matter what reform measure you support, the more your constituents—in other words, our workers—understand about the issue, the more Congress will be doing the “will of the people,” and the people of this country will be able to accept the difficult decisions that you must make in the future. AWRS member organizations stand ready to help. Thank you again for asking me to appear today, and I would be happy to answer any questions.

AWRS PRINCIPLES

The Alliance for Worker Retirement Security is a broad-based coalition of organizations dedicated to reforming the Social Security system to ensure an adequate retirement income and an opportunity for workers to create personal economic wealth.

Principles of the Alliance

1. Permit workers to invest their retirement payroll taxes (FICA) in individually-directed personal retirement accounts (PRAs).
2. Oppose an increase in payroll taxes.
3. Guarantee a “safety-net” (minimum government benefit) for all retirees.
4. Preserve the benefits of retirees and near-retirees.
5. Oppose government investment in the stock market
6. Oppose general revenue transfers (primarily income taxes) to Social Security in the absence of structural reform.

Mission of the Alliance

Develop and implement a strategy for passage of Social Security reform legislation that incorporates the principles of the Alliance.

September, 1999

ALLIANCE FOR WORKER RETIREMENT SECURITY

Aetna	NCR Corporation
American Bankers Association	National Federation of Independent Businesses
American Farm Bureau Federation	National Restaurant Association
Americans for Tax Reform	National Retail Federation
Black America’s PAC	Pfizer, Inc.
The Business Roundtable	Seagrams and Sons, Inc.
Citizens for a Sound Economy	Securities Industry Association
Committee for Good Common Sense	60 Plus Association
Council for Government Reform	Small Business Survival Committee
Economic Security 2000	Society for Human Resource Management

ALLIANCE FOR WORKER RETIREMENT SECURITY—Continued

Jeld-Wen Corporation	StorageTek
Hewlett-Packard	TRW
Hispanic Business Roundtable	Windway Capital Corporation
National Association for the Self-Employed	U.S. Chamber of Commerce
National Association of Manufacturers	United Seniors Association
National Association of Women Business Owners	National Council of Chain Restaurants

Chairman SHAW. Thank you.

There is a vote on the floor. In fact, there are two votes. I would think that we can get back here in approximately 15 minutes and conclude the hearing. But I will have to recess it for at least that long, 15 to 20 minutes possibly. And we will start with you when we return.

[Recess.]

Chairman SHAW. OK. Mr. Riemer.

STATEMENT OF HANS RIEMER, FOUNDER AND DIRECTOR, 2030 CENTER

Mr. RIEMER. Thank you, Mr. Chairman, Mr. Matsui, and Members of the Committee. My name is Hans Riemer, and I am the founder and director of the 2030 Center, a public policy organization for young adults. The 2030 Center conducts research and public education in order to provide a voice for young workers on important economic issues such as strengthening Social Security and improving job opportunity.

We are concerned about Social Security because we want to make sure that today's young workers and future generations will be able to collect their full benefits, guaranteed. There is no doubt that young people want Social Security to remain financially strong. This desire is an important explanation for why young people on a nearly two-to-one basis support using the budget surplus for Social Security rather than a tax cut.

As you know, the Social Security Administration recently began to send benefit statements to working Americans. These personalized statements estimate the projected retirement, disability, and life insurance benefits that a worker may claim. I believe this is one of the most important developments in the history of Social Security, and I applaud you, Mr. Chairman, and Members of the Committee, for supporting this remarkable legislation.

Promoting public understanding of Social Security has been a concern of ours for some time. In 1998, Peter Hart Research Associates, a national survey research firm, conducted a poll for the 2030 Center that closely evaluated public attitudes—particularly the attitudes of young workers—toward Social Security. We discovered that efforts to inform the public about Social Security still have a long way to go.

One of the most striking examples pertains to expectations of future retirement benefits. Most Americans seem to think that Social Security is going to run out of money entirely in just a few years, or at most a decade or so; that every penny of Social Security funds soon will be used up. This, of course, is far from true. Even if Congress does nothing, Social Security benefits are fully financed for at least the next 37 years. And even after then, the payroll tax at current levels can fund at least 72 percent of promised benefits.

For most Americans this reality represents a dramatic improvement over their current expectations. We need to do a much better job educating the public about the present fiscal health of the program, so that informed judgments can be made about the future.

Another important area where improvement is needed: Americans do not have an adequate understanding of the range of benefits that they are earning. As you know, one-third of all Social Security beneficiaries today—more than 13½ million people—are not retired workers. They are disabled workers, survivors, and their family dependents, including millions of children.

In our poll we asked young adults if they could name any benefit or coverage provided by Social Security other than retirement. Fewer than 16 percent could name disability, and only 13 percent could name survivors benefits. Fully 42 percent said that Social Security provides no other benefits at all. And 22 percent did not know or respond. All in all, nearly three-fourths of all respondents were unaware of the survivors and disability insurance coverage that protects them and their families right now.

In other words, most young workers, upon opening their personalized benefits statements from the Social Security Administration, will learn for the first time that they are also qualifying for disability and survivors insurance; that Social Security is already there for them today. Considering that Social Security provides about as much life insurance and disability insurance as all private-sector providers combined, it is a good public service indeed for the government to notify working Americans about these important benefits.

While the current benefits statement is limited to explaining the benefit formula guaranteed under present law, I am aware that some have proposed to use these statements to address other issues. I believe that any attempt to do this should be resisted, Mr. Chairman.

I strongly believe that the mission of the Social Security statements should remain focused and clear: To notify Americans of their contributions and benefits under present law.

I think that these statements will send Americans precisely the right message: Social Security provides disability and survivors benefits, and it is the foundation of a secure retirement, but it is not enough.

I am certain that this is an agenda that we can all support. And I thank you for inviting me to testify before your Committee today.

[The prepared statement follows:]

Statement of Hans Riemer, Founder and Director, 2030 Center

Thank you, Mr. Chairman, Mr. Matsui, and members of the Committee for inviting me here to testify today. My name is Hans Riemer, and I am the founder and director of the 2030 Center, a public policy organization for young adults. The 2030 Center conducts research and public education in order to provide a voice for young workers on important economic issues such as strengthening Social Security and improving job opportunity.

We are concerned about Social Security because we want to make sure that today's young workers and future generations will be able to collect their full benefits—guaranteed. There is no doubt that young people want Social Security to remain financially strong so that it will pay full benefits to current and future retirees. This desire is an important explanation for why young people, on a nearly two-to-one basis, support using the budget surplus for Social Security rather than a tax cut.

As you know, the Social Security Administration recently began to send "benefit statements" to working Americans. These personalized statements estimate the projected retirement, disability, and life insurance benefits that a worker may claim. I believe this is one of the most important developments in the history of Social Security, and I applaud you, Mr. Chairman, and members of the committee, for supporting this remarkable legislation.

Promoting public understanding of Social Security has been a concern of ours for some time. In 1998, Peter Hart Research Associates, a national survey research firm, conducted a poll for the 2030 Center that closely evaluated public attitudes, particularly the attitudes of young workers, towards Social Security. We discovered that efforts to inform the public about Social Security still have a long way to go.

One of the most striking examples of the need to improve public education about Social Security pertains to expectations of future retirement benefits. Most Americans seem to think that Social Security is going to run out of money entirely in just a few years or, at most, a decade or so—that every penny of Social Security funds will soon be used up. This, of course, is far from true; even if Congress does nothing, Social Security benefits are fully financed for at least the next 37 years; and even after then, the payroll tax at current levels can fund at least 72 percent of promised benefits. For most Americans, this reality represents a dramatic improvement over their current expectations. We need to do a much better job educating the public about the present fiscal health of the program so that informed judgments can be made about the future.

Another important area where improvement is needed: Americans do not have an adequate understanding of the range of benefits they are earning. As you know, one third of all Social Security beneficiaries today—more than 13.5 million people—are not retired workers. They are disabled workers, survivors, and their family dependents, including millions of children. While about 45 million Americans are collecting Social Security checks today, there are even more who were raised with Social Security as a crucial source of income because a parent died or became disabled. This aspect of Social Security is not well understood.

For example, in our poll, we also asked young adults if they could name any benefit or coverage provided by Social Security other than retirement. Fewer than 16 percent could name disability, and only 13 percent could name survivors benefits. Fully 42 percent said that Social Security provides no other benefits at all, and 22 percent did not know or respond. All in all, nearly three fourths of all respondents were unaware of the survivors and disability insurance coverage that covers them and their families right now.

In other words, most young workers, upon opening their personalized benefits statement from the Social Security Administration, will learn, for the first time, that they are also qualifying for disability and survivors insurance—that Social Security is already there for them today. Considering that Social Security provides about as much life insurance and disability insurance as all private sector providers combined, it is a good public service indeed for the government to notify working Americans about these important benefits.

While the current benefit statement, Mr. Chairman, is limited to explaining the concrete benefit formula guaranteed under present law, I am aware that some have proposed to use the statement to address other issues and concerns. With the great many opportunities that all parties have to reach the public with an advocacy agenda, I hope that you will use your leadership to draw the line so that official information provided by the U.S. Government may only be used to explain present law, rather than various contingencies that may or may not occur.

I strongly believe that the mission of the Social Security statements should remain focused and clear: to notify Americans of their contributions and benefits under present law.

Thanks to the Social Security statements, millions of workers who are contributing to Social Security and want benefits to be there for them will now be able to determine how much more they need to save for their retirement.

I think that these statements will send Americans precisely the right message: Social Security provides disability and survivors' benefits and it is the foundation of a secure retirement—but it is not enough.

I am certain that this is an agenda that we can all support, and I thank you for inviting me to testify before your committee today.

Chairman SHAW. Thank you.

Mr. GEBHARDTSBAUER. Thank you, Mr. Chairman. Good afternoon——

Chairman SHAW. No, no, no, no, no, no. I have got to try this one: Gebhardtsbauer.

Mr. GEBHARDTSBAUER. Very good. Yes.

Chairman SHAW. Would you try it?

Mr. GEBHARDTSBAUER. Sure. [Laughter.]

Mr. GEBHARDTSBAUER. Actually, it took me 8 years to learn how to say it, so you have done it a lot quicker than I. It is "Gebhardtsbauer."

Chairman SHAW. I did get it right.

STATEMENT OF RON GEBHARDTSBAUER, SENIOR PENSION FELLOW, AMERICAN ACADEMY OF ACTUARIES

Mr. GEBHARDTSBAUER. Good afternoon, Members of the Committee and staff. I am the senior pension fellow at the American Academy of Actuaries. The Academy is the non-partisan professional organization of actuaries in the United States. And we want to thank you for allowing us to testify today.

I have been specifically asked to talk about two proposed bills that would add information to the Trustees' Report. And in background for this, I actually looked at some of the extensive material that Social Security has on its website. They actually have the very first Trustees' Report from 1941, and it is 12 pages.

But over the past 60 years, Social Security I think has been very responsive to the public and to Congress' requests. And so now it is 220 pages—a massive document. So you can see why maybe they are concerned about, how much more is going to go into it.

But I think there are a lot of good ideas that the 1999 technical panel, came up with. Experts, economists, actuaries were in that group. And also, in these two bills. There are some good ideas. And in fact, one, for instance, is a projection of poverty rates in the future. Some reform bills would raise the poverty level for people who are elderly, and some reform bills would actually lower poverty levels. So it would be good for you to have a projection of those poverty levels before you vote. So you would want to see those comparisons. But maybe it does not necessarily have to be in the Trustees' Report. It can be somewhere, so that you can make that vote.

But the reason why I am here today is to note that the Academy have some concerns about some of the provisions in the bills. So even though we like a lot of the provisions, we also want to talk about some of our concerns, because I think there are some unintended consequences in the bills that maybe the sponsors did not know.

For example, they would also require budget projections. And I think those are very valuable, too, because some bills would use general revenue, and some bills would not. And so it is good to have a budget projection to see what the deficits could be like in the future. And that is understandable. You also may want to have a budget projection to see if we can easily redeem those bonds after the year 2015. So there are lots of good reasons for them.

But there could be an unintended consequence. If the Social Security actuaries are the ones that have to do those calculations, they would do them using their own calculations and their own assumptions, so that it would be consistent with all their work. But then you would now have a third projection of what the budget deficits are going to be like in the future.

And I think there would be a tendency to tell the Social Security actuaries not to use their assumptions, but to use the OMB's or CBO's assumptions. So I think it puts them in a difficult position, maybe hurts their independence. And so maybe a way to craft that—is to require CBO or OMB to do those calculations. In fact, I think one of the bills is doing this.

The other area that I think is a concern is that in the Sense of Congress part of one of the bills it says, "We would recommend that all the recommendations of the technical panel be implemented by Social Security." And that is a hundred pages. There is an awful lot of information in there. They say, "if reasonable"; but still, I think Social Security would feel they had to implement all of them, to the extent they could.

And I think before you do something like that, you would want to make sure you agree with all of the ideas in there, and there are an awful lot. And here is one, for instance: You require stochastic projections.

And I apologize if your eyes glaze over. This is probably something only economists or an actuary would like. I know in my speeches around the country at townhall forums sponsored by members and the White House, we always give people a lot of time to ask questions. They have never wanted a stochastic valuation, though. And I am not sure the members here do, either because here is what a stochastic valuation does.

Right now, we project what our best estimate is of the future. And if we fix Social Security, then our best estimate would say, "Social Security is now in balance." But what a stochastic valuation would do is it would say, "Here are all the ranges of a possible future." So the day after you have solved Social Security and put it in balance, the headline in the paper the next day would say, "Social Security Fixed: The Probability of Failure Is Now Only 50 Percent." So I am not sure you want something like that.

I think the unintended consequence of a stochastic valuation would be, it would force you to increase taxes or cut benefits even more than maybe you intended. So that is a concern. So you may want to look at that technical panel's report, and only specify what you like out of it, instead of saying the whole thing.

I guess the other major concern is "money's worth." We have been talking about that already. We feel at the Academy that a "money's worth" or internal rate of return can be misleading. And I think it was shown pretty well in the exchange earlier today between Mr. Matsui and Mr. Sununu.

The response to, "Why would it be on that benefits statement?" is so that you could compare it with your rate of return on your 401(k). The only problem with that is, you are going to see this 2 or 3 or 4 percent number from Social Security, and your 401(k) is getting 10 or 20 percent. But that is because all of the 401(k) money is being invested; none of that money in your 401(k) is going to your parents. And so it is an unfair comparison. It should not be done.

So what the Academy would say: "Money's worth" and internal rate of return calculations are helpful if they are used to, say, compare different proposals—"What is this proposal like compared to this proposal?" But to have an internal rate of return by itself could be very misleading. And I have some more information on that in my document.

And I notice I have a red light, so I want to finish up.

I guess my main point at the end is that Social Security has implemented a lot of the recommendations coming from Congress and the technical panels in the past. And so maybe we might want to give them some time to kind of incorporate some of these ideas.

But if you do want to have some of these mandated, then I think you ought to look at them very carefully and itemize which ones you want, before you say all of them should be done. Thank you.

[The prepared statement follows:]

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

Statement of Ron Gebhardtsbauer, Senior Pension Fellow, American Academy of Actuaries

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

Chairman Shaw, committee members, staff, and fellow panelists, Good Afternoon. My name is Ron Gebhardtsbauer and I am the Senior Pension Fellow at the American Academy of Actuaries. The Academy is the nonpartisan, public policy professional organization for actuaries in the United States. We at the Academy thank you for inviting us to speak at this hearing on "Efforts to Inform the Public about Social Security."

In the interest of time, I have provided the subcommittee with copies of my full testimony on this subject, so that I can focus on my most important points. I've been asked to discuss two proposed bills that recommend adding information to the Trustees Report. These are H.R. 3578 and S. 2249. I also will comment on the 1999 Social Security Advisory Board Technical Panel recommendations for expanding the data included in the Trustees Report.

What Issues about Social Security Are of most Concern to the Public?

One of the more interesting parts of my job over the past 4 years was to serve as the Social Security expert at many Town Hall forums across the country sponsored by Members of Congress, the White House, and several non-partisan organizations.

At the Town Hall forums, the most frequent questions were:

- Did Congress really spend our Social Security money?
- Are Social Security's bonds real money, or not?
- Will Social Security be there for me when I need it?
- Are we getting a good return on our contributions?

The Questions are Really for Congress: Unfortunately, these questions ultimately cannot be answered by a Trustees' Report or a Benefit Statement from Social Security. They can really only be answered by Congress. It will be difficult for Social Security to answer these questions fully until Congress puts Social Security back into balance. Nevertheless, the American public can find much valuable information in the annual report of the Social Security trustees.

The Trustees' Report

In preparation for this testimony, I reviewed Social Security's web sites and was fascinated by how extensive they were. For example, they have all the Trustees' Reports back to the first one in 1941. The first one was only 12 pages. The past was so much simpler. Yet it had many familiar items, such as graphs and charts, optimistic and pessimistic assumptions, caveats about how hard it is to forecast the future, and important dates (e.g., when benefits would exceed taxes and funds would be exhausted). Over the past 6 decades, Social Security has responded to the needs of the public and Congress by including many more items. Current reports are around 220 pages.

Suggestions for additional information in the Report: However, various experts and recent advisory panels have suggested including still more information in the Trustees' Report. See the attached recommendations from the 1999 Technical Panel. Many of their suggestions are valuable. I will discuss the controversial ones and provide advantages and disadvantages, so that you can decide if you want to require them.

For Comparing Reform Proposals: Some items would be very helpful for comparing specific proposals (**e.g., projections of poverty rates and budget deficits**). For example, some reform proposals use Individual Accounts, which could increase poverty rates among the elderly. Other proposals fix this by subsidizing small accounts or coupling them with a flat universal benefit. That could reduce poverty rates. Thus, you may want poverty projections for comparing these proposals before voting on them. Other reform proposals from both sides of the aisle use General Revenues. Again, you may want a projection of future budget deficits (such as those found in the recent GAO Report HEHS–00–29) to compare these reforms. Thus, some items may only be needed in certain circumstances, and may not be needed forever, especially after you put Social Security back in balance. Therefore, instead of requiring them in the Trustees' Report, you may want to just encourage Social Security to put them in a separate report and/or on their web site. You may find that they would be happy to do that. The Trustees have taken prior Technical Panel reports seriously and generally respond to their suggestions. In addition, you might give them some time to determine how best to provide them or display them, so it may be preferable not to be too specific in your requirements.

The Academy has also released today, *Quantitative Measures for Evaluating Social Security Reform Proposals,* which provides policy makers with a framework to evaluate the financial effect of competing reform proposals on the program's long-term solvency and the impact of proposed changes on the financial needs and expectations of current and future workers. A copy of the issue brief is attached to my testimony.

Budget Projections: There are difficulties in calculating some of the numbers (e.g., the budget projections). The Trustees would need to reproduce the extensive budget projections from OMB, and would have to convert them to the Trustees' assumptions, so that the projections are consistent. In addition, they would have to project OMB's numbers beyond the typical 10 years that they project them, and decisions would have to be made on whether dynamic scoring should be used. But this is not an insurmountable problem. GAO has made such a projection (GAO Report: Evaluating Reform Proposals HEHS–00–29). There may be an **unintended consequence** though. The administration might push for using the OMB assumptions instead. In the past, the actuaries strenuously objected to using OMB's or CBO's assumptions for fear that they might be politically motivated (however slight it might be). If the actuaries are forced to calculate budget numbers using OMB's or CBO's assumptions, it could harm the independence of their work. Possible solutions would be for the bill to require using the actuaries' assumptions, or require CBO to perform the budget projections.

Stochastic valuations: The current report provides the Trustees' best estimate of what they think will happen in the future, along with an optimistic and a pessimistic projection. A stochastic projection will estimate the probability that the system will fail in 75 years. You may find this an interesting piece of information and helpful if you want to quantify when a certain reform proposal is more risky, such as a reform that would invest in stocks. On the other hand, **it can have some drawbacks besides being complex and expensive. It can be confusing and have unintended consequences on policy.** Congress really wants only one answer, but stochastic valuations will provide multiple answers, and they may not be the answers you want. For example, suppose Congress puts Social Security back in balance the usual way using our best estimates of the future. The next day's headline, using a stochastic valuation, might say "Social Security's probability of failure is now only 50%." I'm not sure that is a message Congress would like. On one hand, that is reality. On the other, it could make Congress look bad. Would it push Congress to raise taxes further in order to assure a lower level of failure? Thus, using the stochastic measure could make Social Security more expensive. In addition, arguments about the assumptions will escalate, because the Trustees would have to determine the shape of the distribution for each assumption, the standard deviation from the mean, and the covariance with all the other assumptions. If you think people are arguing about the assumptions now, wait until you have stochastic valuations.

Money's Worth Tables: Some additions are **voluminous** and would dramatically increase the size of the report with tables of many numbers and graphs (such as money's worth tables). As the 1999 Technical Panel suggested, this item can be shortened by just doing prospective money's worth calculations for small number of age and income cohorts. Retrospective returns depending on how long you lived, whether you received a disability benefit or survivor benefit, etc., can produce a voluminous amount of results.

Money's Worth numbers can be **misused and misleading.** For example, Social Security's assets had a yield of 7% this past year. People are pleasantly surprised when they hear that. They think it is lower, due to what other people say the returns are using money's worth calculations. These implicit rate of returns should not be compared with market returns. They can even be negative for some people. But that's the nature of insurance—you don't mind it when your insurance policy doesn't pay off (e.g., you didn't get in a car accident). In that situation, your rate of return is more than a little negative; it's negative 100%. You didn't get any money back on your insurance premium. You can also get negative returns on social welfare programs and taxes, because some people pay in more than they get back. Thus, this rate of return *cannot, should not,* be compared to the yields you get on your assets. If we decide to privatize Social Security, we will still have to pay benefits to our parents. Thus, at least some, maybe all, of our contributions are going to someone else. A money's worth analysis forgets that we can't get out of that promise to our parent's generation. In addition, in Social Security, single people are paying taxes that help married people, and high-income people are paying in for lower earners. If they have a low return, it may be because their contributions are going to others. This wasn't a problem in the past, because they would get more from the next generation. But now the system is mature, that won't happen again (unless fertility rates increase dramatically or our current huge productivity gains last forever). As you can see, individual money's worth analysis, gets more to the question of distribution among classes. If we want the system to have a better return, we can invest in stocks or just increase the bond yields by Congressional action. (Since it is Congress that keeps Social Security from investing in stocks and corporate bonds, they could compensate by giving them a return of 10% will just raise our income taxes and it will add an element of politics into the system.) There is another concern with rates of return analysis. One way to fix Social Security would be to give it $5 trillion of General Revenues. The rates of return would look great, but that wouldn't be fair. All sources of contributions must be included in the calculation, so that the comparison is not manipulated. This is not as easy as it sounds however. For example, how would you calculate it if Congress gave Social Security's bonds a slightly better rate of return? (Should some of the additional investment return be included in contributions?) Thus, providing each individual's rate of return can be misleading, so we need to be careful, before we require them.

One last concern for individual rates of return for Social Security is that they depend on how Social Security will be fixed, and who will be affected. So again, Social Security can not adequately answer this question—only Congress can.

Social Security could just provide some of the extensive recommendations on their Web site, not the Trustees' Reports or benefit statements, unless you think they would be misleading even on the web site.

Recent proposed legislation, H.R. 3578, would require certain additional items in the Trustees' Report. We discuss the advantages and disadvantages, so that you can assess them.

The Unfunded Liability (and Change since Prior Year): This number is useful for reform proposals that want to move to an advance-funded system. It is sometimes referred to as the closed group obligation, the transition cost, or the unfunded termination liability, and would be around $9 trillion today. Private-sector pension plans are required to display their unfunded termination liability prominently. However, some people contend that it is not a relevant number for an ongoing Social Security system, which is just a transfer system from workers to retirees. They contend it should not appear in the Report, because it will be confused with the open-group unfunded number (approximately $3 trillion today). When the system gets back in balance the open-group number will be zero, but the closed-group number will still be around $9 trillion. Will this confuse people? Advocates of this number say it is important for us to acknowledge that Social Security is not advance funded and that we have made these promises without funding for them. I can only give the advantages and disadvantages on this, not take a position. It is a political issue for you to decide if you want to require it and how prominent it should be—whether it should be in the Summary, the Report, or just available on a website. The number is calculated annually already, so it won't add any administrative costs. H.R. 3578 would have to define it better. For example, is it the number that private-sector plans must provide—the closed group unfunded termination liability or is it the ongoing unfunded accrued liability? Is it a calculation closed to just the people paying into the system today, or is the calculation open to new workers coming into the system in the future. If open, is it open forever or limited to 75 years? H.R. 3578 has 3 versions. Only the present value calculation is meaningful. Another would just add up nominal dollar unfunded amounts from the future. Another uses CPI-adjusted numbers. These two numbers are misleading and should not be used. They can increase dramatically even in good years (e.g., if productivity improves), which is a not a helpful result.

The Deficit in the Last Year of the Projection: This amount is helpful for understanding the sustainability of the system and already appears in Table III.B4 on page 183 ($7 trillion in 2075 dollars). H.R. 3578 also wants the inflation-adjusted amount displayed more prominently. Relating it to pay or GDP would be preferable. Chart C in the Summary shows the 2075 deficit is 6% of taxable payroll. This is more meaningful than the $7 trillion number or even the $300 billion number which is inflation-adjusted, because benefits and taxes increase at rates more closely tied to pay. The further out in years, the more the numbers become misleading by the additional compounding over the inflation rate. This deficit is also discussed in the Summary, which states that the benefit outgo is 1½ times as large as the tax income in that year.

The Economic Model, Relevant Data, and Changes: We agree that all of these items should be in an actuarial valuation. In fact, actuarial standards of practice require that actuarial valuations be sufficiently documented so that another actuary can assess whether the results are reasonable. If the sponsors are encouraging more details, I note that page 144 refers the reader to a web site and some Actuarial Studies (which are listed on the web) that can be requested from the Office of the Actuary.

Quality of Trust Funds' Assets: H.R. 3578 also requires the Trustees' Report to explain that the Trust Fund balances are not real economic assets. This hints at the very controversial debate on whether the money is real or not. However, I don't know if Congress can do this without contradicting its full faith and credit backing of the bonds. I think I know what the sponsor wants. Prior Trustees' Reports gently expressed a concern about how the bonds would be redeemed, which might be acceptable. Maybe people can work together to finesse this difference without the law getting into this controversy. The proposed bill requires the Report to state that Congress will need to raise taxes, increase the debt, or cut benefits to redeem the bonds. This is a reasonable factual statement.

Technical Panel: Another bill (S. 2249) says it's the Sense of the Senate to implement the recommendations in the 1999 Technical Panel's report. Many of them have value, and we have discussed some of their advantages and disadvantages already. However, some people are concerned about an unintended consequence of referencing the 1999 Panel in the bill. You may prefer that a bill just state its specific requirements without referencing the Panel. Citing the Panel elevates them above the Trustees (which includes their bosses' boss—the Commissioner of Social Security, and also the Secretaries of Treasury, HHS, and Labor). In addition it could give future Panels (which might have very different ideas) more importance than you might want, or it could give some items in the 1999 Report more authority than you wanted. **Do you agree with all of the recommendations?** How important are they? Are their benefits worth the cost to provide them? If some of them take an inordinate amount of space, could they be on the web instead and referenced? Since the suggestions are from a panel of experts, we doubt that any of their requirements would be misleading to knowledgeable readers, but some people are concerned that items, such as stochastic valuations and internal rates of return, could confuse and mislead some people. There are lots of items in those 100 pages of their report. Some additional advantages and disadvantages of S. 2249 follow:

Emphasize income and cost rates and balances for all 75 years with the same emphasis as the actuarial solvency numbers. It appears that all 225 numbers are being required in all the places the solvency number appears. Since this would take a lot of space, maybe the intent is to just have it appear up front, prominently. Since the intent is to present measures of long-term sustainability, maybe only the 75th year is needed, as suggested in H.R. 3578.

Percentage Increase in Taxes/Decrease in Benefits Needed for Solvency in all 75 years: These percentages can be determined by a quick division from numbers in the Report (e.g., Table II.F.13 or III.B2, or B3, or B4, or C1). They will add to the length of the report, but can be helpful.

Effects on National Savings: These numbers can be important when comparing certain reform proposals. For example, if contributions are increased (whether for the Trust Fund or for Individual Accounts) and/or benefits cut, National Savings could increase, which could have other beneficial affects on productivity and the economy. However, there is strong disagreement on whether savings will increase a lot or a little. Some would say they are **unknowable.** In fact, there are disagreements even on how to measure savings (e.g., whether to include capital gains). In addition, these numbers are primarily of value in comparing proposals.

Effects on the Budget: Again, these numbers are valuable when comparing certain reform proposals. For example, some reform proposals use General Revenues, which can increase future budget deficits. Members will want projections of these deficits (such as those found in the recent GAO Report HEHS–00–29) to compare these reforms. Thus, this item may only be needed in certain circumstances, and may not be needed forever, especially after you put Social Security back in balance.

Average Lifetime Values of Benefits (by age, income, gender, and type of benefit): As the 1999 Technical Panel noted, this will show that the value of lifetime benefits received from Social Security is increasing as people live longer. Life expectancies also show this. The panel also noted that the lifetime values can help us compare lifetime benefits from reform proposals that distribute benefits in different patterns. The panel however, recommended fewer numbers for the Trustees' Report. They suggested the larger group of numbers be available electronically. Some panel members also suggested that the lifetime value of taxes paid also be provided. This would help the reader determine their money worth, the advantages and disadvantages of which were discussed earlier.

Conclusion

Experts and panels have recommended new items for the Trustees' Reports, many of which are valuable. **Social Security may over time accept many of them, as they have in the past.** However, if Congress chooses to mandate certain items, I would suggest it study them thoroughly. Some recommendations may be costly and you may want to do a cost-benefit analysis before requiring them. Some are voluminous, so you may decide that they are important enough to have somewhere, but not necessarily in the Trustees' Reports. Some items are good but they need to be defined better and clarified, so that they are not misleading. Some items are only needed for today's reform proposals, which is why they are not in the annual Trustees' Report. They may not be needed in the future. However, they may be needed as a base number from which to compare the proposals. Thus, they can go on the web site if necessary, but they don't have to be in the Report. Some may cause confusion or be misleading, so you will want to be careful before adding them. Some proposals just want more prominence for certain items, which shouldn't be a problem, unless you think the prominence over-emphasizes them to unwary readers. Some have **unintended consequences.** For example, the 1999 Technical Panel's recommendation for stochastic valuations could raise Social Security taxes.

Hopefully by providing these advantages and disadvantages, you will be able to decide which additions are important enough to require by law.

Finally, my experience listening to participants at Town Hall forums around the country has revealed that the public's most important questions can not be answered by the Trustees' Report, only by Congressional action. We at the Academy are available now and any time in the future if you have more questions. Thank you for inviting us to speak at this hearing.

1999 TECHNICAL PANEL TABLE OF RECOMMENDATIONS

Presentation Issues (for the Trustees Report and elsewhere)

- The format can be improved to allow easier access and understanding.
- The uncertainty of projections should be displayed more clearly and in ways that reflect better the relationship of that uncertainty to the design of the law.
- Cohort life expectancy should be shown (period life expectancy, as now shown, is easily misunderstood).
- The lifetime value of benefits (and possibly taxes) for various types of workers over time should be displayed.

• Alternative estimates of the unfunded obligations of the Social Security system should be presented in the Trustees Report.
• Traditional definitions of "typical workers"—low and average earners—result in an overstatement of the lifetime income and benefits of the typical low-income and average-income worker and should be revised.
• Less emphasis should be placed on the 75-year actuarial balance and more on long-term sustainability (as reflected, for instance, in balance during the last part of the projection period).
• Benefits under existing tax rates and taxes under existing benefit rates should be presented to better reflect consequences of current law.
• Prevalence rates for Disability Insurance, not just incidence rates of new awards, should be displayed.

Methodology and Models

• A published consistent set of criteria is recommended for comparing reform proposals and current law.
• General equilibrium modeling is necessary for consistency and to understand interactions.
• Models (micro simulation) to demonstrate distributional effects, as well as to estimate better those features influenced heavily by distributional factors, are necessary and must be enhanced significantly.
• Greater public access to Social Security information should be encouraged.
• Ongoing technical review of several issues is necessary.
• Modeling capabilities (stochastic modeling) are necessary to display uncertainty and the effect of policy on that uncertainty.
• Estimation methodology would benefit from new techniques to reflect consistency among variables.

Chairman SHAW. Thank you.
Dr. Aaron.

STATEMENT OF HENRY J. AARON, BRUCE AND VIRGINIA MACLAURY SENIOR FELLOW, BROOKINGS INSTITUTION, AND CHAIRMAN OF THE BOARD, NATIONAL ACADEMY OF SOCIAL INSURANCE

Mr. AARON. Thank you very much. I have a suggestion with respect to this gentleman's name, if it is problematic. Just think of the Minority Leader's flower garden: "Gephardt's Bower." [Laughter.]

Mr. AARON. It is very easy.

Mr. GEBHARDTSBAUER. Except he spells his name wrong, with a "P." And mine is with a "B." [Laughter.]

Mr. AARON. I cover a number of points in my statement, but in my oral remarks I want to focus on the discussion of rate of return calculations: Should you do it in the reports? And my answer is a clear "No."

And the reason is that it cannot be done right. Not that it is not done right, not that it has not been done right; but that it cannot be done right. Let me list five questions that you would have to answer in order to do a reasonable evaluation which would permit the kinds of comparisons to which attention was just drawn.

What is full protection against inflation risk worth? No private asset provides this protection. Social Security does.

What is full protection against financial market risk worth? All private assets analogous to individual accounts carry financial market risk, which the accountholder must bear. Social Security spreads such risks over all workers and through time. How much is such risk diversification worth?

How should one value political risk? Social Security is subject to political risks that benefits or tax rates may be changed. Individual accountholders are subject to the risk that income or estate taxes could be changed in ways that affect the value of their accumulation. How should one value each of those kinds of risks?

How much is the insurance protection in disability and survivors insurance worth? People regularly pay premiums that exceed the expected payout for property and casualty, disability, life, and health insurance. They do so because the insurance spares them the risks that they feel ill equipped to bear. That means that the value of such insurance exceeds its costs, although the payments are less than the cost. How should one estimate the extra value in the case of insurance protection provided by Social Security against loss of income from disability or premature death of the breadwinner?

How much is the earnings insurance provided by Social Security worth? When workers enter the labor force, it is usually unclear whether they are going to be high or low earners. Social Security's benefit formula provides higher replacement rates if earnings turn out to have been low than if they turn out to have been high—a form of earnings insurance. How much is it worth?

None of these questions has been answered well with respect to Social Security. Many more equally difficult questions could be listed. Of course, I want to stress, any good analyst could come up with answers to almost any question at all. Unfortunately, the answers are going to differ enormously.

What this means, I think, is that responsible people would make radically different estimates. For that reason, mandating the reporting of rates of return would be to mandate highly uncertain, even arbitrary, estimates.

When workers enter the labor force, they typically do not know anything more than their own race and sex. They do not know what they will earn. They do not know when or whether they will marry, or get divorced, or remarry, or have children, and if so how many. They do not know how often or how long they will be unemployed. They do not know if they will become disabled, or how long they will live, and, if married, how long their spouse will live. They do not know future asset yields or rates of inflation. They do not know how risk averse they will be, and how much they will pay to avoid those risks in the future.

Not only do workers not know these things; neither does any actuary or economist. Yet, without knowing these things it is impossible—not difficult, but completely impossible—to construct meaningful estimates of the rate of return on a complex set of contingent payments such as Social Security.

Let me repeat: Some analysts can make assumptions about each of these variables, plug them into a computer, and come up with a numerical answer. I am simply asserting that this numerical answer would not be worth the powder to blow it to hell.

And if you would like me to be more clear in response to questions, I will try to do so. [Laughter.]

[The prepared statement follows:]

Statement of Henry J. Aaron,[1] Bruce and Virginia MacLaury Senior Fellow, Brookings Institution, and Chairman of the Board, National Academy of Social Insurance

Mr. Chairman:

Thank you for the invitation to testify on the quality of information provided to workers and citizens through the annual Social Security statements and the reports of the Trustees of the Social Security program.

The initiation of annual information reports is a major and constructive innovation, as you stressed in your announcement of these hearings. The Trustees Reports, which have been available since the inception of Social Security, are a remarkable source of information, unmatched as far as I know by analogous releases in any other country.

Although these reports are very good indeed, it is important and constructive to ask whether they could be better. There has never been a data source that analysts did not believe they could improve in some way. And I shall not break that chain. Improvements are possible. For that reason, you are to be congratulated on scheduling hearings to consider possible improvements.

Having said that, *I think that legislative micromanagement of these reports is more likely to reduce their quality than to improve it.* Congress showed great wisdom in mandating these reports. But with even greater wisdom it left the design of these reports to non-political professionals. These civil servants—in my view among the most dedicated and capable in the federal government—have made and continue to make annual improvements and modifications based on consultation with governmental and nongovernmental professionals.

Before turning to the specifics of these reports, *I want to highlight two facts. First, the debate on Social Security reform has benefitted from the agreement by most participants to work from the same set of estimates about the long-term financial status of the program.* These estimates have driven home the two key statistical facts about the status of Social Security. Firs, the system is currently running large cash flow surpluses and will continue to do so for many years. Second, the program faces a projected long-term deficit.

We all realize that any changes in the program will be phased in gradually. The proper mind-set for Social Security reform—to borrow a term immortalized by the Supreme Court in another context—is that we should move with all deliberate speed to enact the reforms on which Americans and their representatives can agree.

My second point is that *agreement on the two key facts I just mentioned has permitted debate to focus on matters that are more important than finances and have little to do with them—whether the Social Security system as currently designed is the best way to serve the purposes of social insurance—to assure basic income to American retirees, the disabled, and survivors.* My own view is that it is well designed for that purpose. Others disagree. But the key point is that we can focus on that debate. For the most part, we have avoided a wonkish numbers squabble. The prospects for resolution of the debate on structural reform of Social Security will diminish sharply if we become occupied by squabbles about the numbers. If the public begins to think that the experts cannot even agree on what the numbers are, they will either get diverted from the more important issues or they will get bored and tune out. We should avoid a situation in which dueling estimates contend for public attention. We should make sure that the numbers used in public debate are done carefully, according to reasonable assumptions and are presented in a manner that the public can readily understand.

So much for homilies. Now I should like to apply these principles to specific suggestions that have been advanced by various critics of the current estimates as contained in the Trustees Reports or the annual statements sent to workers. Because many assumptions go into these projections, there are many points of potential debate. I shall focus my remarks on just two. If you wish to go into others, I should be glad to respond to your questions.

Mortality Rates

The Technical Panel on Assumptions and Methods that reported last November urged the Trustees approximately to double the rate of improvement in mortality rates assumed in projecting long term costs. The 1999 Trustees Report assumed faster declines in mortality rates than have been observed since the early 1980s, but

[1] Bruce and Virginia MacLaury Senior Fellow, the Brookings Institution; Chairman of the Board, National Academy of Social Insurance. The views expressed here are my own and do not necessarily reflect the views of the staff, officers or trustees of the Brookings Institution or the members, staff, or directors of the National Academy of Social Insurance.

slower than rates of improvement measured over longer periods. The Technical Panel's recommendation was based on analyses by reputable demographers and others who served on the panel. Not all outside experts share the Panel's views, but the projection of sharply improved longevity can certainly be defended. Great medical advances lie in the future. They could greatly extend life expectancy. Unfortunately, as I have noted, the most recent trends in mortality rates are not so encouraging—or discouraging, from the standpoint of Social Security's finances.

For experts to miss a turning point or to expect one that hasn't occurred yet is not unusual. Nor is it unusual for them to change their minds. The problem is that experts often guess wrong.

- In the 1930s, few foresaw they baby boom. In the 1950s and 1960s few foresaw its end.
- Five years ago, budget experts foresaw large and explosively growing budget deficits. Today they foresee virtually permanent budget surpluses.
- Three years ago, economists believed that unemployment much below 6 percent would trigger explosively growing wage and price inflation. Many now maintain that 4-percent unemployment without inflation can go on indefinitely.
- Some now believe that productivity growth will remain so high that little of the projected long-term deficit in Social Security will remain. Other's think current rates cannot be sustained or even believe that they will relapse to the dismal rates that prevailed from 1973 through 1996.

The Social Security trustees often have to decide what to do when expert judgment is not yet confirmed by the facts. The prudent course of action, I believe, is to take account of the experts' views, modifying assumptions a bit at first. Then, if evidence confirms the experts' views, further adjustments are in order.

With the amply documented history of real howlers by experts in mind, I believe that we should admire the prudence with which the Trustees handled the Technical Panel's recommendations on assumptions regarding mortality rates. In the 2000 report, the Trustees increased the assumed rate of improvement in mortality by one-third—a sizeable shift, but much less than the huge shift suggested by the Technical Panel. Presumably, they found in the promise of the biological revolution sufficient reason to increase assumed longevity. But they sensibly decided to wait for the revolution to show up in the numbers before making even larger shifts.

As I noted, expert judgment may change a lot—and quickly. If the Trustees promptly and completely incorporated the latest, best wisdom of economic or demographic experts, the 75-year projections would oscillate crazily from year to year. The result would be alternate bouts of euphoria and panic and a breakdown of trust in the projections. Instead of conveying the important message that Social Security faces a projected long term deficit that we should close promptly, people would look at current surpluses and shrug off the long-term projections as undependable.

I have focused on projected mortality, but the same cautionary note applies to other key assumptions. Productivity growth is dramatically above what the actuaries assume. Rather than incorporating these higher levels into long-term projections, the Trustees raised assumed productivity growth a modest 0.1 percentage point. The "new economy" is great fun. Let's enjoy it as long as we can. But only if it lasts a decade or more, are the Trustees likely to incorporate it fully into long-term Social Security projections. *Given the history of trend reversals, the Trustees' practice of cautious and highly damped adjustments to new events is the only prudent course.*

Rates of Return

Oceans of financial data wash over us. Every mutual fund routinely reports its annualized rates of return for various past periods. Business school professors have computed rates of return on common stocks, 30-year Treasury bonds, Treasury bills, and just about everything else. *Shouldn't Social Security provide such data to each worker and as part of the annual Trustees Reports? The answer, I believe, is a clear and unambiguous "No!; There are three reasons:*

- *the enduring effects of Social Security's past history on the continuing operation of the system;*
- *the character of the Social Security benefit package; and*
- *the fallacies that arise from choosing incorrect perspectives for measuring rates of return.*

Social Security is a combination of annuities, insurance, and income redistribution. Furthermore, the program's history shapes its present and future. For workers who live to retirement, Social Security is an annuity. For people who become disabled or die, it is insurance that provides payments to workers or their dependents. For low-earners and large families, the program provides social assistance, financed by high earners and small families. Furthermore, the program today must deal with the consequences of the decision to pay early beneficiaries larger benefits than their contributions merited. Each of these factors should be taken into account in computing rates of return. Yet no currently available analysis has done so.

Past policy. The extremely generous benefits that Social Security paid to early beneficiaries were financed by payroll taxes collected from active workers. As a result, reserves accumulated for these younger workers were tiny. Benefits subsequently paid to those younger workers have had to be financed by later workers. The reserves that were *not accumulated on behalf of today's workers are the unfunded liability of the current system. Unless Congress reneges on these benefits—which is inconceivable—it will be necessary to collect taxes to pay those benefits. This obligation is inescapable, whether Social Security continues in its current form or is replaced. No mutual fund or asset group carries such an unfunded liability. Should some system of individual accounts replace Social Security, taxpayers would not escape this unfunded liability.*

For this reason, it would be misleading, at best—meaningless, at worst—to compare rates of return on Social Security with returns on individual accounts that omit the cost of paying this unfunded liability. No such individual accounts plan could exist, unless Congress was prepared to renege on promises to current workers. Yet, such comparisons would be natural and would even be encouraged by the ignorant.

The benefit package. Several analysts have presented estimates of the rate of return on Old-Age Insurance—that is, of retirement benefits. Unfortunately, the estimates of returns on Old-Age Insurance are incomplete and misleading. In contrast, no one has ever presented estimates of the rate of return on Social Security as a whole. The reason is that *reliable data and defensible methods for estimating the rate of return on Social Security as a whole are currently unavailable.*

Let me make clear that I am not throwing stones simply at others. More than a quarter century ago, I prepared the first empirical estimates of the rate of return on Old-Age Insurance.[2] They were the best I could do at the time, but they weren't good enough, as the discussant of my paper pointed out. The problem was that, like many later analysts, I was forced to make a crude and highly distorting assumption. Because Social Security consists not only of Old-Age Insurance but also of Survivors Insurance and Disability Insurance, one cannot attribute the entire payroll tax to support of Old-Age Insurance. On the average about two-thirds of the payroll tax goes to support Old-Age Insurance.

I and, subsequently, others have assumed that each worker bears the burden of about two-thirds of the payroll tax. We have compared the present discounted value of that tax with the present discounted value of the expected retirement benefits that workers receive. The interest rate that equilibrates these present expected values was the rate of return.[3]

The purpose of my study was to test an hypothesis originally presented by Milton Friedman, that blacks do less well than whites under Social Security. The problem, Friedman noted, was that blacks have briefer life expectancies and collect retirement benefits for a briefer period than do whites. This condition, he suggested, more than offset the disproportionately generous benefits paid to low earners, among whom blacks were—and are—over-represented. I found that blacks' shorter life expectancies about offset the effects of the benefit formula and that rates of return for blacks and whites were rather similar.

My discussant pointed out that I had not found what I had thought I had found. The problem, he pointed out, is that Social Security is an integrated package of retirement, survivors, and disability insurance benefits. The shorter life-expectancies of blacks mean that they receive proportionately more survivors benefits than do whites. In addition, the shorter black life-expectancies are correlated with higher disability rates, so that blacks receive proportionately more disability benefits than do whites. For this reason, he pointed out, I was wrong to assume that the same fraction of the payroll tax supports retirement pensions for blacks and whites. To compute the rate of return for blacks as a group or for whites as a group, one would have to take into account the differential value of disability and survivors benefits. I hadn't done that. So, my computations may have been interesting, but they did not mean what I thought they meant.

Data to solve this problem were lacking a quarter century ago, and they are lacking still. This fact has not prevented analysts from repeating the same mistake I made and, unfortunately, adding new ones of their own. The Heritage Foundation, for example, compared rates of return to blacks and whites using life-expectancies at birth, rather than examining when labor force entrants died and how long those

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[2] Henry J. Aaron, "Demographic Effects on the Equity of Social Security Benefits," in The Economics of Public Services, Martin Feldstein, editor, 1976.

[3] I actually computed ratios of present discounted values rather than internal rates of return, but the conceptual error described in the text is the same.

who reached retirement age actually received benefits.[4] The result was a gross distortion in the relative lengths of benefit payments. For example, Heritage estimated that the average duration of benefit receipt for black men aged 20 in 1997 would be 2.2 years. The true expectation was 8.1 years. This distortion severed any connection between the calculations and reality. Both former chief actuary Robert Myers and current deputy chief actuary, Stephan Goss have written devastating critiques of this egregious study.[5]

If one should not present *bad* estimates of returns on Old-Age Insurance as estimates of returns on Old-Age Insurance and certainly not as returns on Social Security, the question remains as to whether it is possible to prepare *good* estimates of returns on Social Security. I imagine that one day such studies will be done. But they haven't been done yet, and a number of very difficult problems will have to be solved before such studies merit inclusion either in the Trustees Reports or in annual statements to workers. Among these questions are the following:

• What is full protection against inflation risk worth? No private asset provides this protection. Hence, it is necessary to value this protection if fair comparisons are to be possible between Social Security and other assets.

• What is full protection against financial market risk worth? All private assets analogous to individual accounts carry financial market risk, which the account holder must bear. Social Security spreads such risks over all workers and through time. How much is such risk diversification worth?

• How should one value political risk? Social Security is subject to political risks that benefits or tax rates may be changed. Individual account holders are subject to the risk that income or estate tax rules may be changed in ways that affect the value of their accumulations. How should one value each kind of risk?

• How much is the insurance protection in Disability and Survivors Insurance worth? People regularly pay premiums that exceed than the expected pay-out for property and casualty, disability, life, and health insurance. They do so because such insurance spares them risks they feel ill-equipped to bear. This fact means that the value of such insurance exceeds its cost although the payments are less than the cost. How should one estimate this extra value in the case of the insurance protection provided by Social Security against loss of income from disability or premature death of a breadwinner.

• How much is the "earnings" insurance provided by Social Security worth? When workers enter the labor force, it is usually unclear whether they will be high or low earners. Social Security's benefit formula provides higher replacement rates if earnings turn out to have been low than if they turn out to have been high, a form of earnings insurance. How much is this insurance worth?

None of these questions has been answered well with respect to Social Security. Many more equally difficult questions could be listed. Of course, any good analyst can come up with answers to almost any question. Unfortunately, the answers will differ enormously. This fact means that responsible people will make radically different estimates. To mandate reporting of rates of return would therefore be to mandate highly uncertain, even arbitrary, estimates.

Perspective for Measuring Rates of Return. When workers enter the labor force, they typically do not know anything more than their race and sex. They do not know what they will earn. They do not know when or whether they will marry. Or get divorced. Or remarry. Or have children, and, if so, how many. They do not know how often or how long they will be unemployed. They do not know if they will become disabled or how long they will live and, if married, how long their spouse will live. They do not know future asset yields or rates of inflation. They do not know how averse they will be to risk and how much they will pay to avoid these risks.

Not only do workers not know these things, neither does any actuary or economist. Yet without knowing these things it is impossible—not just difficult, but completely impossible—to construct *meaningful* estimates of the rates of return on a complex set of contingent payments such as Social Security. Let me be clear. Some analyst can make assumptions about each of these variables, plug them into a computer and come up with a numerical answer. I am simply asserting that this numerical answer would not be worth the powder to blow it to hell.

Of course, as workers age, they will learn answers to many of these questions. They will still not know how long they will live or whether they will become disabled or what rate of inflation will prevail when they become beneficiaries. But they

[4] William W. Beach and Gareth G. Davis, "Social Security's Rate of Return," Heritage Foundation, January 1998

[5] Robert J. Myers, "A Glaring Error: Why one study of Social Security misstates returns," The Actuary, September 1998, p. 5; Stephen Goss, "Memorandum: Problems with 'Social Security's Rate of Return,' A Report of the Heritage Center for Data Analysis," February 4, 1998.

will know if they are rich or poor; married, divorced, or single; parents or childless; well or ill; and so on. Once they know these things, however, they will—by definition—no longer be benefitting from the protections that are an essential part of Social Security—the insurance against these risks.

For that reason, *it makes no sense to measure the value of Social Security to, say, a fifty-five year old by the taxes that worker has paid and will pay and the benefits that worker will receive.* To see why, consider a fifty-five year old homeowner who has had fire insurance since buying the home at, say, age twenty-five. This homeowner has paid premiums for thirty years and will continue to pay premiums. It would surely be complete nonsense to value that insurance by comparing the present value of all premiums the homeowner has paid and will pay against the expected pay-outs in the event of a fire. Most of the value of the insurance has already been achieved, in the form of peace of mind over three decades. The best outcome would be one in which the homeowner looks back at a lifetime of premium payments and no cash benefits. The financial rate of return in that case would be—. The economic return is presumed to be positive; otherwise people would not have bought the insurance.

In the same sense, most of us would like to look back at a lifetime of payroll tax payments and to find that we never collected disability insurance, our children never collected survivors benefits, and we did not benefit from the high replacement rates paid to low earners.

What this means is that the only potentially meaningful calculations of rates of return would have to be made for new labor force entrants. At that point, workers know their race and sex, but not much else. If one thought one could answer the questions I listed in the preceding section—as well as many others that I could have included—then one might prepare estimates of rates of return for race/sex groups. But I don't think that these questions can be answered with satisfactory confidence. And so I come to my conclusion—mandating estimates of rates of return would be ill considered. Analysts can make such estimates, but they would not be meaningful.

Conclusion

I have focused on two issues: legislative mandates regarding particular assumptions and legislative mandates regarding estimates of rates of return as part of annual reports to workers or of the Trustees Reports. Each issue illustrates a larger class of issues. My major purpose is to warn about the dangers of legislative micro-management of the contents of statistical reports, such as that of the Social Security Trustees, or annual reports to workers. The Trustees Reports are subject to annual review by outside experts. The methods used in making these reports have changed. Statistical capabilities change over time as new analytical methods arise, as data sources expand, or, as has been increasingly the case in some areas of late, as data sources vanish because of penny-wise cuts in budgets of statistical agencies.

In addition, I hope that the Trustees will continue the work now under way to construct representative life-time earnings profiles. I would urge them to reconsider the linkage of various assumptions now grouped in the high-or low-cost projections. But these and other problems are best addressed by the Trustees with the aid of outside professional consultants. Congress has mandated, and will mandate, one-time studies of particular questions. Where these questions are sensitive—and virtually everything seems to be sensitive to someone—it often mandates a responsible organization whose objectivity is not in question, such as the National Academy of Sciences or the Institute of Medicine to carry out such a study. If Congress wishes to explore in greater depth the issues raised in these hearings, it might consider a similar approach, mandating a study by the National Academy of Sciences or the National Academy of Social Insurance.

Chairman SHAW. Thank you. I guess you tried.

Mr. AARON. Oh, no, I could continue, Mr. Shaw. Are you inviting me to do so? [Laughter.]

Chairman SHAW. Ms. Entmacher.

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

Ms. ENTMACHER. Chairman Shaw, Mr. Matsui, and Members of the Subcommittee, I appreciate the opportunity to testify on behalf of the National Women's Law Center.

The new Social Security statement provides in a short and clear format the essential information women need to plan for retirement, check their earnings records, and understand the program. This information is especially important to women, who depend more than men on Social Security income and on the full range of benefits that Social Security provides in addition to worker retirement benefits.

Some have suggested that the statement also should include information about Social Security's rate of return, as they would define it. Some proponents have acknowledged that the purpose of this is to encourage workers to compare Social Security's rate of return with what they could get if they invested those dollars privately.

We are concerned that information would be highly misleading, as several other witnesses have already indicated. First, as others have stressed, most of the Social Security taxes paid by current workers are used to pay benefits to those who are currently eligible. Once the cost of continuing to meet those obligations is factored in, the rates of return under Social Security and privatized systems is similar.

To emphasize how large a factor this is, last year about 85 cents of every dollar Social Security collected in taxes went to pay benefits to current beneficiaries. About 15 cents went into the Social Security Trust Fund, where by law it may be invested only in U.S. Treasury securities.

If current workers could contribute their tax dollar not to Social Security, but to save it for only themselves, they would have a dollar to invest, not 15 cents. It would hardly be surprising if their returns were higher. But if current workers stop paying Social Security taxes, Social Security would not be able to pay benefits to those who are eligible. Over half of all women 65 and over would be plunged into poverty.

I am sure that this Subcommittee, that this chairman, that these members, that this Congress and indeed any Congress, would not allow that scenario to unfold.

And once the cost of paying those promised benefits is factored into any reform plan, the rates of return under Social Security and a privatized system would be essentially equal, as many economists have concluded.

Second, any estimate of Social Security's rate of return must include the value of protection against risk provided by its secure lifetime inflation-adjusted retirement benefits.

As Mr. Aaron just said, Social Security allows people to get a secure basic benefit that they can count on through retirement without worrying about the state of the stock market, the rate of inflation, or—and this is a particularly well-grounded fear for women, given their life expectancies and smaller other resources—the risk that they will outlive their other assets. If women had to obtain comparable protection privately, it would be extremely expensive, if possible at all.

Third, Social Security provides disability and life insurance benefits that are not reflected in the investment concept of rate of return. I think most people, if they get through a year without experiencing a fire, flood, earthquake or burglary, do not figure that they have gotten a bad rate of return on their homeowner's insurance.

The protection that Social Security provides by way of disability and life insurance would be far more expensive, or impossible, to obtain for many people, especially older Americans, those with preexisting conditions, and those in dangerous occupations.

Finally, focusing on the rate of return to individual workers ignores the social insurance values of Social Security. Fortunately for women and millions of other Americans, Social Security does not pay benefits in strict proportion to an individual's contribution. Women in particular benefit from Social Security's progressive benefit formula that provides workers with low lifetime earnings with retirement benefits that are a larger percentage of their average earnings, and Social Security's protections for spouses whose lifetime earnings have been reduced because of homemaking and caretaking responsibility.

In conclusion, it would appear that the purpose of some of those who talk about Social Security's rate of return is not to better inform the public, but to undermine support for a system that is vital to the economic security of millions of American women and their families.

To be sure, it is important to consider ways to reform Social Security to strengthen its financing and improve its benefits. Social Security has been adjusted many times since it was created to better achieve its social insurance goals. But that, and not a debate focused on rate of return, is the discussion that we need to have.

Thank you.

[The prepared statement follows:]

Statement of Joan Entmacher, Vice President and Director, Family Economic Security, National Women's Law Center

Chairman Shaw and members of the Subcommittee on Social Security, I am Joan Entmacher, Vice President and Director of Family Economic Security of the National Women's Law Center. I appreciate the opportunity to appear before you again to testify about efforts to inform the public about Social Security.

The National Women's Law Center is a non-profit organization that has been working since 1972 to advance and protect women's legal rights. The Center focuses on major policy areas of importance to women and their families including employment, education, women's health, and family economic security, with special attention given to the concerns of low-income women and their families. Most relevant to this hearing, the Center has worked for more than two decades on issues of Social Security and women. It has presented testimony on Social Security issues affecting women to Congress over a dozen times, as well as to the Advisory Council on Social Security and several task forces of the Department of Health and Human Services. The Center served on the Technical Committee on Earnings Sharing in Social Security and co-authored its report, and served on the Congressional Study Group on Women and Retirement for the Select Committee on Aging of the House of Representatives, and co-authored and presented its Social Security recommendations. This January, the Center presented a paper which I co-authored on "Increasing Economic Security for Elderly Women by Improving Social Security Survivor Benefits," to the National Academy of Social Insurance.

In October 1999, the Social Security Administration (SSA) began mailing personalized benefit statements to workers who are ages 25 and older and not receiving

Social Security benefits. The purpose of these statements is three-fold: 1) to provide workers with an estimate of their Social Security retirement benefits to help them plan for retirement; 2) to ensure that SSA has complete and accurate earnings information; and 3) to provide information about the range of benefits available through Social Security.

In designing the statement, SSA faced a significant challenge. There was a great deal of information to convey. But, as the GAO warned in its comments on SSA's earlier version of the Personal Earnings and Benefit Estimate Statements (PEBES),

in general, people find forms, notices and statements difficult to use and understand. For this reason, many people may approach a PEBES-like statement "with fear, frustration, insecurity, and hesitation."

People appreciated the information in the earlier statement, but the public also indicated that the dense, six-page statement "contains too much information and is too complex." [1]

The current statement has been completely redesigned. It is short (four pages) and clear, but contains the essential information people need to plan for retirement, check their earnings records, and understand the program. A Gallup survey found that people who have received the statement are significantly more likely to understand that: 1) the amount of Social Security benefits depends on how much they earned; 2) Social Security pays benefits to workers who become disabled; 3) Social Security provides benefits to dependents of workers who die; and 4) Social Security was designed only to provide part of total retirement income.[2]

The statement also includes a message from the Commissioner concerning the future of Social Security. It identifies the factors that give rise to the concern about the future of Social Security, and acknowledges the need to address long-range financial issues. But the statement also, and appropriately, addresses fears that Social Security won't be there when future generations retire:

The program has changed in the past to meet the demands of the times and must do so again. We are working to resolve long-term financial issues to make sure Social Security will provide a foundation of protection for future generations as it has done in the past.

The latest report of the Social Security Trustees confirms that the statement conveys the right message. The Trustees project that for the next 37 years, Social Security will be able to pay all promised benefits. And after that, Social Security tax revenues will be sufficient to cover over 70 percent of promised benefits.[3] There is a projected long-term shortfall; but the size of the deficit has been declining for three years, and the issues are manageable. In the early 1980s, Social Security faced a far more serious and imminent financial challenge. Congress met that challenge, and the changes adopted in 1983 have allowed the Trust Fund to grow for decades. The projected long-term shortfall needs to be addressed, but modest adjustments would secure the program for even more generations to come.

The information provided by the new Social Security statement is important for all Americans, but it is especially important for women. Women depend more on Social Security income in retirement than men. Social Security provides half or more of the income of nearly two-thirds of all women 65 and over, and 90% or more of the income of nearly one-third of such women.[4] To plan for a more secure future, women need to know what their Social Security benefits are likely to be. Information about the range of benefits available under Social Security is also of particular use to women, who depend far more than men on Social Security benefits other than "retired worker" benefits. In 1998, 82% of adult male recipients of Social Security benefits were retired workers. Only 18% of adult male beneficiaries were disabled workers, spouses, surviving spouses, or disabled adult children. In contrast, nearly half of adult female beneficiaries, 44%, were receiving benefits as disabled workers, spouses, surviving spouses, or disabled adult children.[5]

Some may suggest that the statement also should include information about Social Security's "rate of return." The Heritage Foundation, for example, has published a number of reports that purport to provide such information, which it defines as a comparison between the amount that workers pay into Social Security with the

[1] U.S. General Accounting Office (1996), SSA Benefit Statements: Well Received by the Public but Difficult to Comprehend, GAO/HEHS–97–19, p. 6.

[2] Social Security Administration (1999), News Release, "Social Security Begins Issuing Annual Statements to125 Million Workers," September 30, 1999.

[3] Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (2000), *2000 Annual Report* [Social Security Trustees 2000 Annual Report].

[4] Kathryn Porter, Kathy Larin and Wendell Primus (1999), *Social Security and Poverty Among the Elderly* (Center on Budget and Policy Priorities) [Porter, Laren and Primus (1999)].

[5] Social Security Administration (1999), *Annual Statistical Supplement to the Social Security Bulletin:* 1999.

benefits they expect to receive in retirement. Its purpose is to encourage individuals to reject Social Security in favor of private investment.

Knowing Social Security's rates of return will allow families to compare Social Security benefits to other investment vehicles. If the rate of return from Social Security is lower than what the family would receive from another investment, then allowing workers to place their Social Security payroll tax dollars into alternative, private investments would allow their money to grow more quickly (and provide them with a higher retirement income in the future). [6]

However, comparing the "rate of return" from Social Security to that available from individual private investment (assuming either could be calculated for individuals in a meaningful way) would be highly misleading for several reasons.

1. Most of the Social Security taxes paid by current workers are used to pay benefits to those who are eligible. Once the cost of continuing to meet obligations to current beneficiaries and those nearing retirement is factored in, the "rate of return" under Social Security and privatized systems is similar.

Last year, about 85 cents out of every dollar Social Security collected in taxes went to pay benefits to current beneficiaries.[7] About 15 cents went into the Social Security Trust Fund, where by law it may be invested only in U.S. Treasury securities.

If current workers could, as the Heritage Foundation suggests, not give their tax dollar to Social Security but keep and invest it only for themselves, they would have $1 to invest, not 15 cents. They also would have a range of investment choices. With six-and-a-half times as much money to invest, it would be extremely surprising if returns were not higher.

But if current workers stopped paying Social Security taxes, SSA would not be able to pay benefits to those who are eligible. Under one hypothetical scenario, SSA would have to stop paying benefits. Over half of all women 65 and over would be plunged into poverty; two-thirds of Americans 65 and older would see half of their income disappear.[8] If current workers stopped contributing to Social Security, any increase in the rate of return for young, high earning workers with successful investment strategies would be offset by catastrophic declines in the rates of return of those just entering or nearing retirement. It is unimaginable that this Subcommittee—indeed, that this or any other Congress—would allow that scenario to unfold.

The "rate of return" comparison urged by Heritage is fallacious because it includes the cost of paying promised benefits when computing the rate of return for Social Security, but argues that this cost should be ignored when estimating the rate of return for private accounts.[9] Once the cost of paying those promised benefits is factored in (or if the extra funding needed to cover those costs of transition to a private system were credited to Social Security, especially if Social Security were free to make a range of prudent investment choices), the rates of return under Social Security and a privatized system would be essentially equal.[10]

[6] Gareth G. Davis and Philippe J. Lacoude (2000), *What Social Security Will Pay: Rates of Return by Congressional District* 7 (The Heritage Foundation) [Heritage Foundation Report (2000)]

[7] Social Security Trustees 2000 Annual Report, Table I.C1.

[8] Porter, Laren and Primus (1999).

[9] Heritage acknowledges that it has not included the costs of paying benefits to those who are currently retired or close to retirement in its calculation. Heritage Foundation Report (2000) 156. It defends this choice by saying that it wants to provide a comparison between what workers receive under Social Security today with "the returns they would have received had Congress created a Social Security system based on private accounts in 1935" (ibid., at 3). But Congress did not create such a system; instead, it decided to allow workers who had fought in World War I, and lived through the Depression, to begin receiving Social Security benefits even though they had only paid into the system for a few years. The pay-as-you system of financing that was adopted dramatically reduced poverty among the elderly. But it also created a large unfunded liability for future generations. Honoring that obligation necessarily lowers the "rate of return" for current generations. Transition costs also have been underestimated by the Cato Institute in its comparisons of privatized retirement systems and Social Security. Catherine Hill, Lois Shaw and Heidi Hartmann (2000), *Why Privatizing Social Security Would Hurt Women: A Response to the Cato Institute's Proposal for Individual Accounts* (Institute for Women's Policy Research) [Hill, Shaw and Hartmann (2000)]

[10] See, for example, Alicia H. Munnell (1999), *Reforming Social Security: The Case Against Individual Accounts* (Center for Retirement Research at Boston College) [Munnell (1999)]; *Peter R. Orszag (1999), Individual Accounts and Social Security: Does Social Security Really Provide a Lower Rate of Return?* (Center on Budget and Policy Priorities); Peter A. Diamond (1999), *Issues in Privatizing Social Security* (MIT Press for the National Academy of Social Insurance); John Geanakoplos, Olivia S. Mitchell and Stephen P. Zeldes (1998), "Would a Privatized Social

Continued

2. Any estimate of Social Security's "rate of return" must include the value of the protection against risk provided by its secure, lifetime, inflation-adjusted retirement benefits.

Social Security is designed to provide workers and their families with a secure, basic benefit throughout retirement.[11] As the new Social Security statement acknowledges, Social Security is not designed to be the only source of income in retirement. But it is a benefit that people can count on, without worrying about the state of the stock market, the rate of inflation, or -and this is a particular, and well-founded fear for women—the risk that they will outlive their other assets.

Women would find it difficult, if not impossible, to obtain equivalent protection privately. If they tried to use their savings to purchase a lifetime annuity with inflation protection, they would see their rate of return on those investments plummet. Most private annuities—unlike Social Security—base monthly payments on gender, providing women with lower lifetime benefits even when their investment is equal to men's. Converting to an annuity—which is done all at once—makes a woman's lifetime retirement benefits extremely sensitive to the state of the stock market at the time of the conversion. In addition, the costs of converting savings to a private annuity are high; buyers give up an estimated 10–20 percent of the value of the assets they convert to an annuity. Full protection against inflation, not currently available, would further reduce the monthly payments from the annuity.[12] Finally, under Social Security, lifetime protection for surviving widows and widowers does not come at the price of reduced worker retirement benefits. [13]

3. Social Security provides disability and life insurance benefits that are not reflected in the investment concept of "rate of return."

In addition to retirement benefits, Social Security provides insurance to both the worker and the worker's family against the risk of disability and early death. "Rate of return" is not an appropriate concept for evaluating the purchase of insurance. For example, many people buy homeowners' insurance, paying premiums every year. If they got through the year without experiencing a fire, flood, or burglary, most people would not think that they made a bad investment. They didn't buy insurance to get a good rate of return; they were purchasing protection against risk.

Some analyses comparing Social Security's rate of return to that from private accounts, however, would ignore survivor and disability benefits. That omission significantly undervalues the benefits provided by Social Security. Because Social Security creates a huge insurance pool, all working Americans receive low-cost disability and life insurance protection for themselves and their families. The protection that Social Security provides against these risks would be far more expensive, if not impossible, for many people—especially older Americans, those with pre-existing conditions, and those in dangerous occupations—to obtain.[14]

4. Focusing on the "rate of return" to individual workers ignores the social insurance values of Social Security.

Security System Really Pay a Higher Return?" in *Framing the Social Security Debate: Values, Politics and Economics,* edited by A. Douglas Arnold, Michael J. Graetz and Alicia H. Munnell (Brookings Institution Press for the National Academy of Social Insurance)

[11] Munnell (1999).

[12] For a discussion of the extra cost and other difficulties associated with annuities, see Henry J. Aaron and Robert D. Reischauer (1998), *Countdown to Reform: The Great Social Security Debate,* p. 38–41; Munnell (1999); Hill, Shaw and Hartmann (2000); GAO (1999), *Social Security Reform: Implications of Private Annuities for Individual Accounts,* GAO/HEHS–99–160.

[13] Christina Smith FitzPatrick and Joan Entmacher (2000), *Increasing Economic Security for Elderly Women by Improving Social Security Survivor Benefits 3* (National Women's Law Center).

[14] The Heritage Foundation Report (2000) ignores disability insurance and survivor insurance benefits in its rate of return calculations, casually assuming that these benefits would be retained "exactly as they exist under current law" even if the retirement system were privatized (pp. 151–152). However, the Social Security retirement, survivor, and disability benefit programs are closely interrelated; maintaining disability and survivor benefits independent of retirement benefits cannot be done without creating severe inequities and perverse incentives. Kathy Larin and Robert Greenstein (1998), *Social Security Plans that Reduce Social Security Retirement Benefits Substantially are Likely to Cut Disability and Survivor Benefits as Well* (Center on Budget and Policy Priorities). The Cato Institute's proposals to privatize Social Security also exclude consideration of disability and life insurance benefits, on the mistaken assumption that these benefits could be obtained at similar cost privately. Hill, Shaw and Hartmann (2000). For additional information on the higher cost of disability and life insurance protection in privatized systems, *see* Barbara Kritzer (1996), "Privatizing Social Security: The Chilean Experience," *Social Security Bullletin* (59:3), 45–55; GAO (1999), *Social Security Reform: Experience of Alternative Plans in Texas,* GAO/HEHS–99–31.

Fortunately for women and millions of other Americans, Social Security does not pay benefits only to workers, nor does it base benefits strictly on the level of contributions. Social Security's progressive benefit formula provides individuals with low lifetime earnings, who are disproportionately women, with retirement benefits that are a larger percentage of average lifetime earnings. Social Security also provides protection to spouses (and ex-spouses married for ten years) whose lifetime earnings have been reduced because of homemaking and caretaking responsibilities. Over 98 percent of the recipients of spouse and surviving spouse benefits are women. Social Security also allows individuals who are entitled to worker benefits on their own, and to benefits as a spouse or survivor, to receive the higher benefit. Finally, as discussed above, Social Security offers lifetime, inflation-adjusted benefits; neither workers nor their survivors need worry that their benefits will stop once they have a certain percentage of contributions back.[15]

CONCLUSION

It would appear that the purpose of some of those who talk about Social Security's "rate of return" is not to inform, but to undermine support for a system that is vital to the economic security of millions of American women and their families. To be sure, it is important to consider ways to reform Social Security, to strengthen its financing and improve its benefits.[16] Social Security has been adjusted many times since it was created to better achieve its social insurance goals. But that, and not a debate focused on rate of return, is the discussion we need to have.

Chairman SHAW. Thank you.
Mr. John.

STATEMENT OF DAVID JOHN, SENIOR POLICY ANALYST, SOCIAL SECURITY, HERITAGE FOUNDATION

Mr. JOHN. Thank you for the opportunity to testify in this hearing. This is a subject that we at the Heritage Foundation find to be extremely important. Although my written testimony concentrates also on the need to release the continuous work history sample that Social Security puts together to qualified researchers, and to make some changes to the Trustees' Report, I am also going to concentrate on "Your Social Security Statement" and some changes we recommend to that.

Let me in passing say, however, that when the Trustees' Report was released recently, the press reports all reported the good news that Social Security was safe for an additional couple of years. They did not bother to mention, or could not mention, that the unfunded liability increased by 7 percent, and that our children and our grandchildren are now going to face $21.6 trillion in unfunded benefit payments. And that is in today's dollars.

The changes in the "Your Social Security Statement" are contained in two versions of the Social Security Right To Know Act, the Sununu-Weller bill, and the Santorum-Gregg bill in the Senate; and also, in Senator John McCain's Straight Talk About Social Security Act, which was introduced last Friday.

Essentially, all three recommend three changes to "Your Social Security Statement." Now, we at the Heritage Foundation do salute

[15] Joan Entmacher (1999), Testimony at the Hearing on Social Security and Women, Subcommittee on Social Security, Committee on Ways and Means, U.S. House of Representatives (February 3, 1999); Munnell (1999); Hill, Shaw and Hartmann (2000).

[16] For some suggestions on ways to improve benefits for women, see FitzPatrick and Entmacher (2000) and Heidi Hartmann and Catherine Hill (2000), *Strengthening Social Security for Women: A Report from the Working Conference on Women and Social Security* (Task Force on Women and Social Security, National Council of Women's Organizations).

the Social Security Administration on vastly improving the old PEBE statement; not the least of which, most of us can understand now what SSA is trying to say.

At the same time, we would say that there are some improvements. Looking for instance, Mr. Chairman, at your point that it is difficult to tell the boundary between personal information and general information, we would recommend an explicit, in bold statement at the time of the benefits estimates saying, "You will be eligible to receive full retirement benefits in 20-whatever. In that year, Social Security will only receive enough taxes to pay for 'X'-percentage of those benefits. Through 2037, the difference will be made up by the Social Security OASDI Trust Fund, but after that date changes may be required." This makes it personal, and it lets them know that this is not something that is just abstract.

We also strongly support the inclusion of President Clinton's OMB statement about the nature of the Social Security Trust Fund. This is similar to what the private sector is required to report on the trust funds that deal with private pension plans.

Last but not least is the ever-popular rate of return discussion—which has been mentioned on rare occasions. This is the chart that the legislation—the McCain bill and the Sununu bill—would include, except for the red lines.

Now, what does this information tell me here? This red line tells me that my grandmother, who was born in 1896, received a rate of return on her Social Security taxes of about 15 percent in real terms. That is twice what the stock market does on an average year.

My father, who was born in 1919, receives about 8 percent, which is about equal to what the stock market does in real terms. In 1950, when I was born, the rate of return declined to about 3 percent. And my 13-year-old daughter, who was born in 1986, will get below 2 percent.

Now, what this tells me is that this is not a deal that is improving the lifetime benefits of my child. It tells me that if I compared this with some other things—for instance, if I look at the U.S. Treasury series "I" U.S. savings bonds, which pay 3.4 percent plus inflation—that sending her money to the government for this program is not necessarily the best use of her funds.

Now, I am not here to criticize Social Security or the Social Security program. It did wonderful things for my grandmother; it is doing wonderful things for my father. I look forward to visiting my parents again, and anything that I did to endanger their benefits would probably mean that I would be on the wrong side of the door.

But at the same time, my real concern is what happens to my children, and what happens to my coming grandchildren, or future grandchildren—At 13 I hope they are going to be delayed for a while. But the question is, is this getting better for my children? And the short answer is, "No."

Now, in the short run, there are only three ways that you can deal with Social Security's problems: You can raise taxes; you can cut benefits; or you can make that money work harder. Making that money work harder through a personal retirement account is, obviously, our eventual goal at the Heritage Foundation.

But in the short run, it is important for Americans to have the information that they need to understand the nature of the Social Security system and where it is going in the future.

Again, now, it has been suggested that this might be confusing. Well, last weekend I spent a fair portion of my time trying to do my taxes. And I would say that any government that expects me to understand the 1040 form and the instructions for the 1040 form probably can explain additional information on the Social Security statement in a way that is understandable. I hope they do a slightly better job than they did on the 1040 form.

Thank you.

[The prepared statement follows:]

Statement of David John, Senior Policy Analyst, Social Security, Heritage Foundation

I appreciate the opportunity to appear before you today to discuss ways to increase the information that the public can receive about Social Security programs. This is an extremely important subject, and I would like to thank the Chairman for scheduling this hearing. Let me begin by noting that while I am the Senior Policy Analyst for Social Security at the Heritage Foundation, the views that I express in this testimony are my own, and should not be construed as representing any official position of the Heritage Foundation. In addition, the Heritage Foundation does not endorse or oppose any legislation.

Congress could begin the process of Social Security reform this year by passing legislation to provide more information to workers and analysts about the current program and the options for reform. Taking such steps would help to prepare Americans for a more informed debate on the future of Social Security, and it would make it easier to develop a national consensus on real reform. Moreover, these steps would cost very little, both politically and financially. Congress need not wait for a complete Social Security reform plan to be agreed on by all sides before taking these important steps.

Although Social Security is the government's most popular program, many Americans know very little about how it operates and how its benefits compare with alternative retirement investments. For example, millions of Americans remain convinced that Social Security maintains a savings account in each of their names, despite the fact that there is no direct connection between the amount of taxes one pays and the retirement benefits that one eventually receives.[1] Even academic researchers are denied access to information that would allow them to evaluate plans that could increase the retirement security of future generations. Moreover, few Americans realize that the rate of return on their Social Security taxes is averaging a mere 1.2 percent,[2] or that the program will reach insolvency by the year 2015 without reform.[3]

Doing nothing with the current Social Security program makes little sense and will serve only to make matters worse. Testimony by U.S. Comptroller General David Walker indicates once again that the overall cost of not enacting reform increases every year.[4] If serious reform is not feasible this year, then Congress should pass three simple but extremely important changes that would make real reform more likely in the near future.

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[1] The formula used to determine Social Security benefits is based on an individual's inflation-adjusted earnings history, not on the taxes he or she paid. Since 1940, retirement taxes have increased from a combined employer-employee rate of 2 percent on the first $3,000 of earnings to 10.6 percent of the first $76,200 of earnings. Meanwhile, the benefit formula has been based on earnings throughout that period.

[2] William W. Beach and Gareth G. Davis, "Social Security's Rate of Return," Heritage Foundation Center for Data Analysis Report No. 98–01, January 15, 1998.

[3] 2000 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (Washington, D.C.: U.S. Government Printing Office, 2000), p. 3.

[4] David Walker, Testimony before the Social Security Subcommittee of the Ways and Means Committee, U.S. House of Representatives, 106th Cong., 1st Sess., March 25, 1999.

1. Congress should simplify and improve Social Security's Your Social Security Statement (YSSS).

- A more accurate account of Social Security's future financial difficulties also should be added to the YSSS. In specific, individual's should be informed how Social Security's cash flow deficits could affect their retirement benefits.
- Each YSSS should include information about the actual nature of the Social Security trust funds.
- Data should be included on each YSSS explaining the recipient's estimated rate of return from his or her Social Security retirement taxes.

Starting in October 1999, the Social Security Administration began mailing annual YSSS statements to an estimated 123 million workers.[5] These statements include an accounting of Social Security taxes the individual worker has paid to date, the worker's eligibility status for benefits, and an estimate of the various types of benefits the worker and/or the family could receive under different circumstances.

For most Americans, the YSSS statements will be their sole source of official information on how they personally will fare in retirement under the current system. While the new statements are much easier to understand than the earlier Personal Earnings and Benefit Estimate Statements (PEBES), which they replaced, additional change are necessary. Unfortunately, even with the improvements, much of the information contained in the YSSS statements is both flawed and misleading. As a result, millions of Americans may be misinformed about how the current system works and confused about how much retirement income they will receive. Moreover, as the debate over preserving and improving Social Security continues, these workers will not have the necessary information to make an informed decision.

The worst flaws are contained in the methodology that Social Security uses to estimate future benefits. While Social Security uses actual salary information to the extent that it is both available and accurate for past earnings, it then assumes that the individual will continue to earn exactly the same amount through retirement. This results in misleading numbers in a number of instances. For instance, a younger worker's benefits will be grossly understated, as the SSA model does not allow for salary increases. Similarly, anyone with fluctuating income, such as farmers or salespeople, could find that their annual statements include widely differing benefit estimates depending on whether the last year of actual earnings information was a year of prosperity or of difficulty. Finally, women who expect to leave the workforce temporarily to care for children will also receive inaccurate estimates. In order to deal with this weakness, The Heritage Foundation will shortly unveil a website that will allow workers to develop more accurate benefit estimates.

Equally serious is that the YSSS statements fail to adequately inform people how the program's projected financial difficulties could affect the payment of their benefits. While the most recent statements include a footnote hinting at these problems, this warning should be more explicit. The estimated benefits section of the YSSS statement should begin with a statement such as:

"You will be eligible to receive full retirement benefits in 20XX. In that year, Social Security will only receive enough taxes to pay for xx% of these benefits. Through 20XX, the difference will be made up from the Social Security OASDI trust fund, but after that date changes may be required."

These disclosures are similar to those required of under-funded private pension plans by the US Department of Labor. It is only fair to also require Social Security to meet these standards.

Second, Congress should require the Social Security Administration to include information on the actual nature of the Social Security trust funds and how they differ from private-sector trust funds. President Clinton's budget for fiscal year 2000 accurately portrayed this distinction. Chapter 15 of the Analytical Perspectives volume for that year stated that

"These balances are available to finance future benefit payments. . .only in a bookkeeping sense. They do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits, or other expenditures."[6]

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[5] In order to receive a YSSS statement, a worker must be at least 25 years old and have annual earnings, a Social Security number, and a valid current address. The worker also cannot be receiving Social Security benefits.

[6] Analytical Perspectives, Budget of the United States Government, Fiscal Year 2000 (Washington, D.C.: U.S. Government Printing Office, 1999), p. 337.

This statement should also be included in the YSSS statements. Both workers and the media should understand that, in discussing Social Security, the term "trust fund" has a different meaning than it does in normal financial dealings. Although private-sector trust funds contain stocks, bonds, or other assets that can be sold for cash, Social Security's trust funds contain only IOUs that will have to be paid with future taxes.

Finally, the Social Security Administration should be required to include data on the worker's estimated rate of return on Social Security retirement taxes. One way to do this would be to include the chart found on page 23 of GAO's August 1999 report on Social Security's rate of return.[7]

Because YSSS statements already are included in the federal budget, the cost of making these modest improvements would be minimal. By making such incremental changes to the information Social Security provides on YSSS statements, Congress could ensure that millions of workers and their families have better information on the Social Security program, which would enable them to plan more appropriately for their retirement. It also would enhance the Social Security debate.

2. Congress should improve the annual report of the Social Security trustees to reflect the program's long-term outlook more accurately.

- Information should be provided in the initial summary of the Trustees' Report on any changes in Social Security's aggregate dollar liability that have taken place since the last report.
- Information on the actual nature of the Social Security trust funds and how they differ from private-sector trust funds should be provided, too.
- Estimates of the tax increases or benefit reductions that would be necessary to avoid cash flow deficits also should be included, as well as information on how delaying action would change those estimates.

Every spring, the Social Security trustees issue an annual report about the trust fund's financial condition. The 2000 report for the Old-Age and Survivors Insurance trust fund, which includes the Social Security retirement program, includes over 200 pages of charts, tables, and other very detailed information. Unfortunately, some of the most important facts are buried in the report, and others are missing entirely. When the 2000 report was issued earlier this year, for example, news stories concentrated on findings that there would be an additional year before Social Security begins to run cash shortfalls, and three more years before its trust fund is exhausted. Most of the stories did not include the fact that, in the past year, the gap between benefits that have been promised over the next 75 years and the taxes that will be available to pay them actually increased by 4 percent to $20.6 trillion, after adjusting for inflation.[8]

The unduly optimistic picture would have been closer to reality if Congress had required the Social Security Administration to include in the initial summary information on changes in Social Security's aggregate dollar liability over the past year. Currently, that information is included only among the flood of charts and tables in the back.

As earlier discussed, Congress should also require the Social Security Administration to include information on the actual nature of the Social Security trust funds and how they differ from private-sector trust funds. In addition to the statement from President Clinton's budget for fiscal year 2000 that was noted in the YSSS statement section of this testimony, the annual report should also include another quote from Chapter 15 of the Analytical Perspectives volume:

"The Federal budget meaning of the term "trust" differs significantly from the private sector usage. . .the Federal Government owns the assets and earnings of most Federal trust funds, and it can unilaterally raise or lower future trust fund collections and payments, or change the purpose for which the collections are used."[9]

The annual Trustees' Report also should include estimates of the tax increases or benefit reductions that would be necessary to avoid a cash flow deficit, and how delaying actions would change those estimates. In this way, workers would understand that, although cash flow deficits will not appear for another 15 years, the eventual cost of reforming Social Security increases with each passing year. Adding this type of information to the Trustees' Report would allow Americans to see the

[7] "Social Security: Issues in Comparing Rates of Return wit Market Investments," GAO/HEHS–99–110 (Washington, DC: U.S. Government Printing Office, 1999).

[8] This calculation assumes that, as occurs under current law, the federal government spends any future surpluses produced by the Social Security system.

[9] Analytical Perspectives, Budget of the United States Government, Fiscal Year 2000 (Washington, D.C.: U.S. Government Printing Office, 1999), p. 335.

real state of Social Security's finances. They would know that the crisis has been delayed, but it still is getting worse and will cost more to resolve. Although this realistic picture would not be popular with politicians who would prefer avoiding difficult choices, it would be more honest.

3. Congress should allow all researchers access to Social Security's Continuous Work History Sample (CWHS).

- Access to the CWHS would allow private researchers and government agencies to analyze how Social Security reforms would affect the budget and the distribution of benefits among various income groups. The Social Security Administration would retain the ability to edit and format these data to protect the privacy of individuals.
- Support for the release of this information comes from both proponents and opponents of Social Security reform.

The CWHS is a random sample of the earnings and benefit histories of about 1 percent of all Social Security participants. To ensure confidentiality, information that can be used to link data to specific individuals, such as names, addresses, and Social Security numbers, is removed from the sample.[10]

In order to make sure that Americans have the best possible information about Social Security and any proposed reforms, Congress should require the Social Security Administration to release CWHS data to bona fide non-federal researchers. Currently, access to the CWHS is restricted to a small group of government researchers, most of whom are in the Social Security Administration or the Department of the Treasury. The Social Security Administration would retain the ability to edit or format any data being released to provide additional confidentiality protections.

Without wide access to these data, many of the central questions of Social Security reform cannot be explored properly by independent analysts. Because it contains real wage and benefit histories, the CWHS could be used to carry out detailed analysis of the effects of both the current system and any reform proposal on key demographic groups—such as women, minorities, and low-income workers. Without this information, the impact of some of these plans only can be estimated.

Before access to these data was restricted in 1974, they were used widely by private industry, state and local governments, and academic researchers for purposes ranging from forecasting the demand for government services to studying changes in income distribution. Today, there is widespread support within government and among researchers for release of the CWHS data. Both Social Security Commissioner Kenneth Apfel and Secretary of the Treasury Lawrence Summers endorsed the release of the data during Senate Budget Committee hearings on February 24, 1998. In addition, two panels of leading social scientists from the National Research Council (a branch of the National Academy of Sciences) have called for the release of the CWHS data and suggested a number of ways in which the confidentiality of the information could be preserved.[11] And a group of top Social Security scholars from across the political spectrum soon will issue a letter calling for release of the data.

LEGISLATION

There are currently three bills that include one or more of these recommendations. In the House, all three are contained in H.R. 3578, the Social Security Right to Know Act, which was introduced by Rep. John Sununu. Currently, there are 9 co-sponsors to the Sununu bill. The additional information contained in this legislation would allow workers of all income levels to have a better understanding of Social Security's future and how it will affect them. This is extremely important legislation.

In the Senate, S. 2364, also known as the Social Security Right to Know Act, by Senator Rick Santorum would make similar changes to the YSSS statements and the annual trustee's report. Finally, the newest bill, S. 2381, the Straight Talk on Social Security Act, was introduced last Friday by Senator John McCain. It includes the same provisions on the YSSS statement as the Sununu bill.

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[10] For additional information on the CWHS, see Gareth G. Davis, "Empowering an Informed Debate on Social Security: Why Congress Must Act to Ensure Access to the Continuous Work History Sample," unpublished memorandum available from the author on request, 1998.

[11] National Research Council, "The Aging Population in the Twenty First Century," Washington, D.C., 1988. National Academy Press and National Research Council, Private Lives and Public Policies: Confidentiality and Accessibility of Government Statistics (Washington, D.C.: National Academy Press, 1993).

CONCLUSION

If Congress were to pass legislation that made all three of the small changes recommended in this paper, the debate over Social Security reform would be greatly enhanced. Providing more information to average Americans through their annual YSSS statements and in the Social Security trustees' annual report would make it easier for workers to understand how reforms could affect their retirement. And releasing Social Security's Continuous Work History Sample to all researchers would ensure that Americans can determine how different reforms would affect the economy and various socioeconomic groups. Regardless of whether Congress acts this year to deal with Social Security's impending insolvency, these small but important measures are long overdue.

Members of The Heritage Foundation staff testify as individuals discussing their own independent research. The views expressed are their own, and do not reflect an institutional position for The Heritage Foundation or its board of trustees.

Chairman SHAW. Thank you. And I thank all of the witnesses.

I think it is important that I read a paragraph into the record. And this is taken from the Social Security statement. And this is the Commissioner's statement on the front. It reads as if it is a part of a letter. It says:

"Will Social Security be there when you retire? Of course it will. But changes will be needed to meet the demands of the time. We are living longer, healthier lives; 76 million 'Baby Boomers' will start retiring in about 2010; and in about 30 years there will be nearly twice as many older Americans are there are today."

"Social Security now takes in more in taxes than it pays out in benefits. The excess funds are credited to Social Security Trust Funds, which are expected to grow to over $4 trillion before we need to use them to pay benefits. In 2014—" that is now 2015 "—we will begin to pay out more in benefits than we collect in taxes. By 2034, the trust funds will be exhausted, and the payroll taxes collected will be enough to pay only about 71 percent of benefits owed."

"We are working to resolve these issues. For more information about the present and what may lie ahead, call us or get a copy of the booklet, 'The Future of Social Security'."This is something that I think is very admirable, that they put that right on the front. Because it does, in a very fair way, state what the problem is. The only thing that I am concerned about is that people reading this might really think that, well, they have got until 2034, now 2037.

The Congress needs to act on this. Also, is there someone still here from the Social Security Administration? I want to be sure they change and correct this about the earnings limit. You explain the earnings limit in here, and you are going to have to change that age, I am glad to say.

Ms. ENTMACHER. Mr. Chairman, I was speaking with a representative of the administration before the hearing started, and they are working on it already.

Chairman SHAW. I would think that they would. They certainly had a big celebration on that point.

Mr. SALISBURY. Mr. Chairman, if I might, if I could ask your indulgence?

Chairman SHAW. Yes.

Mr. SALISBURY. I was at a supermarket this weekend, and could not help seeing The Sun with the headline, “Social Security Benefits To Double in New government Program.” This was The Sun’s interpretation of the change in the earnings limit.

Mr. PORTMAN. He is covering up that portion. [Laughter.]

Mr. SALISBURY. It was covered in the stand. In the interest of full disclosure, “Found Dead Sea Scroll Written by Jesus Reveals Exact Date of My Return.” [Laughter.]

Mr. AARON. Mr. Shaw?

Chairman SHAW. Yes.

Mr. AARON. Could I mention one point which I think underscores the importance of your comment about the need to act early, rather than stall? This is the first year in which the age at which unreduced benefits are paid has begun to be increased. Looking at the calendar of this piece of legislation is revealing.

It was enacted in 1983. The first people affected by it are affected in the year 2000. It will not be fully in effect until the year 2022. That is a 39-year period, a 39-year phase-in.

When it comes to Social Security, gradualism has always been the order when it comes to benefit reductions, for good and sufficient reasons. And I am convinced it will be, because Congress would act prudently in the future. But that means, if you want to get ready for the fact that costs are going to outrun currently projected revenues, it is better to act soon than late, because you are going to want to phase in gradually.

Chairman SHAW. I think you are absolutely right on that. But there are programs out there now that can be enacted. And if we act now, we will in no way diminish the benefits.

Mr. Matsui?

Mr. MATSUI. Well, thank you, Mr. Chairman. I actually came into this hearing with a great deal of trepidation, with four panels and all these witnesses. And I just want to thank you. I think the hearing was very good. I learned a lot from it, and I appreciated all the testimony from all of the witnesses. Thank you.

Chairman SHAW. We appreciate the thought all of the witnesses have put into their testimony.

Mr. Portman?

Mr. PORTMAN. Thank you, Mr. Chairman. I do not want to hold people up. I may be the last questioner here, including my friend, Mr. Matsui. But I did have a few questions; starting by thanking folks for being here. I wish I could have gotten here earlier. We are always doing three things at once—and today it was four. But I did learn a lot.

I want to start by thanking Dallas Salisbury for EBRI’s work. Again they came out with a good product, just last month, on savings, that I used on the floor today, about the paucity of savings in our country and the fact that in the last 5 years alone we have a 50-percent reduction in private savings in this country.

And all the more reason to talk about Social Security, because we have a general issue with regard to retirement savings. And only half of the people now are covered by any kind of pension plan, and so on. And we need to do more on that. But it puts more pressure on the system that everybody talked about today.

I have to say one thing in response to Ms. Entmacher. Because if you have looked at the Archer-Shaw proposal or other proposals, I think your analysis misses the point in terms of comparing the current system with any kind of a system that has personal accounts; by saying that when you average out the difference between benefits that would be going to the individual, as compared to those that would go to people who are currently beneficiaries while that person is paying taxes, then the rates of return are comparable.

The whole idea here is to get people in a situation where they have, because of the higher rate of return—and you can use 5.2 percent, or you can use a higher or a lower rate—over time, less need for the public moneys.

So that you have to look at a generation, granted. And then you look at two and three generations. And you end up having a system based on projections—that, again, SSA has provided us; and you could use other actuaries—that would indeed not require the Social Security benefits that your grandchild would be paying for your retirement, or my great-grandchildren for my retirement, or grandchildren. So that is why that comparison just troubles me a little.

And maybe you are talking about different systems than the one that I am referring to. But if you compare apples to apples in terms of the rate of return and in terms of the impact on the beneficiary, I think there will be a difference. Do you have a comment on that?

Ms. ENTMACHER. Yes. And I am very pleased you brought that up. I want to give a lot of credit to Chairman Shaw for trying to develop a proposal that protected individual benefits while creating individual accounts; rather than simply cutting back on guaranteed benefits. And I think that is an important feature of what the Chairman was trying to do with his proposal.

But I think the point I made holds up. Because in order to create the private accounts that would be called for by the Chairman's proposal, it would require a substantial amount of funding that would come out of the Federal budget elsewhere; not Social Security taxes, but revenue that could be used either for increasing spending on programs that are important to women, including education and Medicare, or through tax cuts that the Chairman might be interested in.

But the point is that the money that is needed to fund the individual accounts that are part of the Archer-Shaw proposal needs to come from somewhere, needs to be funded somehow.

Mr. PORTMAN. As do all benefits after the year 2014.

Ms. ENTMACHER. Right.

Mr. PORTMAN. And my only point is you are looking at the short-term, rather than the mid-term or long-term, depending on your perspective.

Ms. ENTMACHER. My point is that if the money that would be spent to fund the private accounts—which would exceed the amount of the projected surplus within a couple of decades—if that money were put into Social Security, and if Social Security were allowed to invest that money, instead of the private accounts, we could save on the costs of administering all those private accounts. If Social Security could invest that money in something other than

T-bills, they might get a higher rate of return. And in the end, the total returns would be quite similar.

That is the point, that whether you look at it from the point of view of proposals for private accounts that would increase the money in retirement savings and thought, "Well, what if we put that pre-funding into Social Security—" I entirely agree. We have to compare apples and apples.

Mr. PORTMAN. We have made great progress on it. But what you said was that there is a similar rate of return to the existing system, which you termed as privatization. And if you are talking about a third system, which was not the system you talked about, which would be taking general revenues and investing them in the trust fund into some sort of a market higher rate of return, that is a whole other debate we can have. And we have had that debate on the Committee, as you know, numerous times. And Alan Greenspan and others have spoken on that.

But I think that is a different analysis. And I would just not want to leave the impression that this is not a different type of proposal for the mid- and long-term. All the proposals require a transition cost. I know you all have addressed the transition cost, and it is different depending on the proposal.

But I do think there is a creative third way here. And I think there is agreement among the panelists here that more information needs to be provided to people, so that at least people have the information to be able to make an informed decision.

I do not want to hold people, again, but let me just suggest that Mr. John's idea of having an objective analysis that goes beyond even what Mr. Shaw just said about the solvency issue, I think would be very helpful.

The nature of the trust fund, I know, again, OMB has done some of that. And I think that would be very helpful, putting it in as plain English as possible. And having worked a lot with the IRS, I know that is sometimes a challenge, but we have made some progress even with the IRS in that regard.

And finally is the rate of return, on which I take Henry Aaron's comments to heart, and I appreciate what he said about the need to act quickly, and what you said in response to the President's proposals recently. But I do think that there has got to be a way to provide some unbiased information to people.

I mean, you know, Social Security is not risk-free, either. There are risks built into the Social Security system. And the obvious risk is, in a period of great insolvency, which after the 2034 period spirals to the point that it is impossible for me to imagine us being able to fund that because the taxes would have to, after 2050, 2060, be so high that I think people would——

Mr. AARON. Actually not, Mr. Congressman. But that is a different issue.

Mr. PORTMAN. But that is a risk, in terms of analysis of the risk.

Mr. AARON. The force of my testimony—and we could go into it later on, if you would like—is that your hope and desire—which I think is a legitimate one, and one that I share; I would like to be able to do straight-up comparisons of rates of return—is not possible.

And the reason it is not possible in a way that would command a reasonable consensus, and avoid destructive controversy is the nature of the protections. We do not know how to value them in an unambiguous fashion. I wish we did. I would like to have those comparisons. We just do not know how to do it.

And I want to distinguish what I am saying from the view that it is too complicated for people to understand. That is emphatically not the point I am making. Written clearly, people can understand any of these complicated concepts that we are talking about.

It is not that bureaucrats cannot write plain English that ordinary folk can understand. They can; and they do. The problem is, we analysts could not come to a consensus agreement on how to do the numbers in a way that would avoid what I have called destructive controversy.

And if I could say just a word about that: I live with numbers; academics love to argue about them. If that becomes the focus of the public debate—and I believe it would, if you mandate the estimation of concepts about which there is not a good consensus, that provoke a lot of controversy—people will get confused, because they will be hearing different information from different people. They will get frustrated and annoyed, because they are hearing different information. And they will focus on the wrong issues. They will focus on these number issues.

The right issues, I think, are the ones that you and Mr. Shaw have been trying to draw attention to. I may not agree with your position on policy about them, but the question of how best to structure a retirement system for Americans in the 21st century, whether it should be through a defined benefit system with risks diffused, or a defined contribution system with individual control and risks borne by the workers——

Mr. PORTMAN. Or a third way.

Mr. AARON [continuing]. Or by some combination of the two——

Mr. PORTMAN. I mean, I would hardly call Archer-Shaw a defined contribution system where the risk is borne by the individual, and no risk.

Mr. AARON. No, I would not. I would, frankly, call it a very elaborate way of putting general revenues into the current Social Security system.

Mr. PORTMAN. As is the President's proposal.

Mr. AARON. That is correct.

Mr. PORTMAN. And you have commented on that, and I appreciated your commentary.

But that is the sort of information that if people are provided the right information, I think they can make an informed decision, and people are smarter than we give them credit for.

I also understand your point about a final number. But I cannot believe that in the statement, which I agree is much improved—And I enjoy reading mine now and again, wondering what my kids' statements are going to look like in terms of their amount that they will contribute, and what they will expect back. But I think there can be more information as to the solvency issue, as to the nature of the trust fund, and then finally, something on the rate of return in general terms, not in terms of a specific number, as you say.

And I was not here for your testimony, but I know, Mr. Thau, you have some thoughts on that as well.

Mr. THAU. One thought, which is that the statement implicitly gives you a rate of return. It tells me what I have paid in taxes for this program over the course of my life. It estimates what I am going to pay in taxes over the course of the rest of my working life, and tells me what I am likely to get in benefits at certain retirement ages.

You can calculate out a rate of return based upon what is already in the statement. It seems to me, it would be possible to make that clearer to the ordinary taxpayer, what the total amount is that they are going to pay over a lifetime, and what they are likely to get back.

And what the statement is missing, and what I mentioned in my testimony, is that it does not say what you are going to pay from now until the time you retire. It tells you what you have paid so far, but does not add in the time between now and retirement age. But I think that gives you some sort of calculation of what you are going to get.

It seems to me you have an algebraic equation where you have "A" plus "Blank" equals "C."

Mr. PORTMAN. Right.

Mr. THAU. And the taxpayer does not know what "B" is. And based upon that, you should be able to calculate out, you know, what the value of this program is to you.

Mr. PORTMAN. Since he does not have the mike, I will speak for Dr. Aaron, and say that rate of return would be something that somebody might compare to a rate of return they would get on a 401(k) or even a private investment or an IRA investment; and that there are, according to Dr. Aaron, different kinds of risks involved in that. And I agree, there are different kinds of risks. But I will not agree that it is risk free.

Mr. AARON. Oh, I did not suggest that it was.

Mr. PORTMAN. Yes.

Ms. ENTMACHER. If I could respond to that—And it kind of picks up on the points that Dr. Aaron was making, but it puts them in the context of the women that I meet with when I go out and talk about Social Security. They are afraid of growing old and having nothing to live on.

It is very sad to see people who are afraid that they will live too long. And this is one of their fears. And this is something—I mean, many of these women, particularly the older women I meet with, they did not work much in the paid labor force during their lives, so they are getting spousal benefits. They are relying on the benefits that their husbands earned. Many of them are widows; their husbands are deceased. It would never show up on their Social Security benefits statement, if they got one at all, because they did not have 10 years in.

And you know, this is something that is adjusted for inflation; it comes every month; they can count on it. It is not enough to live on. And that is one of the issues that I think needs to be addressed: How do we improve these social insurance goals?

But talking about improving the rate of return does not get to the concerns. And I know a lot of those women live in your district, Mr. Chairman. And I am sure you know and you have heard how much these other kinds of protections—women who have been homemakers; women who took that chance, that risk of not looking out just for themselves, but looking out for their families—what all those insurance protections that Dr. Aaron enumerated mean for people. And I do not think it is that easy to measure it. I do not think it is possible.

Chairman SHAW. I think one of the things that we have to remember is, the purpose of the hearing was to simply get comment on the statement and the information that is going out. I think we will leave reform to a different day.

But to comment on some of the points that you made, I think Mr. John has exercised a great deal of restraint, that he did not jump out of his chair when you started talking about direct investment by the Social Security Administration.

But I mean, you have the Heritage Foundation on 1 day that wants to go to a privatized system. On the other side, you have your situation, where you would like to see the Social Security Administration do direct investment.

Ms. ENTMACHER. That is not exactly it.

Chairman SHAW. I think the Archer-Shaw bill is somewhat in the middle. We preserve the Social Security system exactly the way it is, and we do not change it. And the Heritage Foundation does not like our plan, because we do not change it.

We leave it totally alone. And the reason we leave it totally alone and do not change the system one iota is because of a lot of the things that you are talking about: The uncertainty and the fear, and the ability to be able to plan. That is what Dr. Aaron is talking about. He talks about the certain amount of guarantees because of the investment structure and the commitment set forth in the language.

Unfortunately—and I think Rob has made this point pretty clear—there are no guarantees, if Congress does not act. And we need to act, to do something. And I think the middle-of-the-road approach, somewhere where Chairman Archer and I are, is about where we are going to end up.

The problem that you have, and the reason this legislation is not moving today, is that there are so many people that do not want to get in any type of investment in private accounts, are against it; and the Heritage Foundation on the other side, that does not go to a privatized system, they do not like it. So the problem that you have, when those two gang up on you it is tough to pass something.

Whatever we pass is not going to be the final say. Future Congresses will look at it. If there is any fine-tuning that is necessary, they will make that fine-tuning.

But I guess I should get back to the purpose of this hearing, myself. But I do hope that we can move together. And it is going to be very, very important that this be done in a bipartisan way. Neither party is going to do a good job if they go it alone. And the American people will not have faith in it.

And we do know that our seniors are very easily frightened when they see that this Social Security is a lifeline that they have and they have lost their ability to work. And it is very important that we do not frighten them at all.

So that is the job that we have mapped out for us. I am still hopeful that we can work with the President in getting something done before the end of this Congress. It is becoming a long shot. We will have to just settle for the little bit of reform we had in doing away with the earnings penalty, and look to the next Administration to try to get something done.

If we control the Congress and I am back, I am confident that my name will remain on this legislation. If we do not come back, it may be the Rangel-Matsui bill——[Laughter.]

Chairman SHAW. With our thought in it. Who knows?

But in any event, this has been a very, very good hearing, and I appreciate all of you being here. Thank you. We are adjourned.

[Whereupon, at 5:42 p.m., the hearing was adjourned.]

[A submission for the record follows.]

Statement of Hon. Judd Gregg, a United States Senator from the State of New Hampshire

Thank you, Mr. Chairman, for the opportunity to submit testimony for your Committee's hearing regarding Social Security right-to-know legislation.

I would like to begin by commending you for your initiative in holding this hearing. I believe the subject of the hearing to be critical to our efforts to safeguard Social Security for America's seniors in a responsible and bipartisan way.

I have joined many others—including several whose policy preferences diverge from my own—in lamenting the lack of constructive, substantive action this year to reform the Social Security program. While too often we yield to the temptation to blame others for that lack of action, I believe that a step back reveals that much of our inability to achieve consensus derives from incomplete public and Congressional understanding of the information flow about Social Security. I believe that these information gaps induce us to talk past one another, to focus only on selective information, and to overlook important facts when they are inconvenient to one's own predispositions.

I would like to begin first by detailing what I believe to be the most damaging gaps in the methods used to present information about the financial operations of the Social Security system.

Secondly, I would like to discuss the manner in which we distribute information to wage-earners and to beneficiaries about the taxes that they pay, and the benefits that they can expect to receive. Here, too, I believe there is evidence that selective presentation of information leads inadvertently to a confusing picture.

Thirdly, I would like to present what may be the most important part of my testimony, focusing on the way that the gaps in the first two types of information bias and distort our legislative deliberations.

And fourth, I would like to close by giving my subjective view of where we are in efforts to address these concerns, including my legislative efforts, and the responses to them.

Before I begin to describe my concerns, I think it is appropriate to begin by commending the professional, nonpartisan work of the Social Security Administration (SSA) to provide accurate information about the future of the Social Security system. There is much that is right and good about the work that they do, and indeed much of the information that I believe that we should emphasize to the public is gleaned either directly or indirectly from the comprehensive report of the Social Security Trustees, from numbers generated by the Office of the Chief Actuary of SSA. In my dealings with SSA, especially the office of the Chief Actuary, I have found them to be exemplary public servants who never fail to respond to our requests in a timely and helpful way. If Congress as a whole routinely received a report on Social Security's financial operations that was as clear, understandable, and transparent as the information that individual staff are able to receive through separate requests to SSA, then the understanding by Congress and the public of the realities of the Social Security program would be immeasurably improved.

It is unfortunate indeed that when one notes the need for improved and more explicit reporting on certain aspects of the Social Security program, that this is sometimes construed as undermining the objective, independent work that SSA currently does. I have been concerned by some reactions to what I consider to be straightforward, inarguable reporting requirements as signaling that any attempt by Congress to insist upon additional information will be regarded as an infringement upon the independence of the Social Security Administration. But there is a significant difference between telling SSA how they must do their technical work, and requiring that certain information be put clearly before Congress when it is done. To characterize the latter as the former undermines confidence that all share the goals of maximizing public information about the Social Security program.

It bears mentioning that the Social Security Administration was granted independent status in recent years, as much to safeguard their independence from administration policies as from the Congress. Accordingly, Congress has as great a right as does the administration to require SSA to provide the information that it believes to be appropriate to its needs to budget for the program. You can be certain that if the President said to SSA that he wanted placed on his desk, every year on March 31, a table of the program's projected annual cash deficits, in dollars, that it would be there in exactly the form requested. We might look askance at a directive by the President that SSA change their technical assumptions, but not at the demand for the information itself. Congress's rights in such matters are equally great, and deserve exactly the same response.

Reporting on the Financial Operations of the Social Security Program

Mr. Chairman, in order to better illuminate the inadequacies of current Social Security reporting, I would ask you to consider the following anecdotal illustration.

Imagine that in some future year your position as Chair of this Committee is held by a less responsible individual, who in an election year such as this one, pushes through this committee a proposal to *double* all current-law Social Security benefits. Imagine, too, that though this Committee took no action to fund these new benefits, it arbitrarily reallocated $1 trillion in credits from on-budget revenues to the Social Security Trust Fund annually for each of the next few decades.

What would be the result of this precipitous and irresponsible action? One result, obviously, would be a vastly worsened problem of funding these now doubly large benefits. But another perverse result would be that the following year's Trustees report would contain a finding that Social Security system had been made solvent throughout the 75-year valuation window—in other words, that's financial problems had been fixed. According to the Trustees' report, the system would never be insolvent.

Now, no rational person could believe that this Chairman had resolved Social Security's problems by simply doubling current benefit promises and rearranging the debts between government accounts. But this is exactly what the current measure of actuarial solvency would oblige us to report.

The remarkable thing about the current Social Security debate is that the argument that the system is somehow "sound" through 2037 under current law is *exactly* the same argument that would be employed to claim that this new Chairman had fixed the Social Security system. There is absolutely no difference between the two, and the obvious shortcomings of this analysis have much to do with our current legislative impasse. Anyone who accepts the argument that we face no difficulties before 2037 must also accept the argument that we can promise additional benefits cost-free, simply by issuing additional credits to the Social Security Trust Fund. They are indeed premised on the same measurement.

Each year, Congress's information on the health of the Social Security system comes chiefly from the annual report of the Social Security Trustees. And each year, news articles hasten to highlight the latest projected date through which the program is "solvent" according to that report. This year, that date is 2037. One is hard-pressed to find an article about the report that doesn't emphasize this date.

The Trustees' work is excellent and professional, but it emphasizes information of lesser relevance to the task of financing Social Security benefits. By highlighting the distant insolvency date of 2037, the annual Trustees' report gives the impression to the public that as this date moves further out or closer in, the long-term picture has either improved or worsened to that extent.

What Congress needs to know about the Social Security program is *not* its projected insolvency date, as my introductory anecdote shows. What it needs to know above all is what the program will bring in, and what it will cost. What are the projected gaps between those two, and thus what are the sizes of general revenue commitments that must be made in addition to collected payroll taxes, in order to pay benefits?

And because this is a long-term program that will require considerable advance planning to reform properly, Congress needs this information to be projected over the long haul, not merely within the 5 or 10 year windows used by CBO and OMB during budget consideration, for refusal to look at the bigger picture until after this time has gone by will destroy our ability to construct a solution to Social Security's financial problems that is fair to all generations.

A simple summary report to Congress should simply state:

—The projected revenues that Social Security taxes will bring in annually

—The projected annual cost of paying benefits

—And any projected gaps between those two figures that will oblige Congress to allocate additional revenues from the federal budget

These could be expressed either as an effective tax rate upon national wages, as a percentage of overall federal spending, or in dollar terms, whichever is deemed to be more useful. In my opinion, more than one of these methods of presentation should be used.

There is information about cash-flow balances in the Trustees' report and on the SSA website, but the most important such information is buried in the appendices. The appearance given by the report is that the annual cost growth in the Social Security system is a rather incidental bit of trivia, in comparison with the somehow more meaningful measure of program solvency. That is not an appropriate distribution of emphasis. From the point of view of the federal budget, of taxpayers, and the economy as a whole, the only thing that matters are the program's annual revenues and its outlays, whereas intragovernmental transfers and debt do not alter the overall picture.

One very great problem with the focus on the insolvency date is that the date of projected insolvency tells one next to nothing with respect to the question of whether and how the government will be able to pay Social Security benefits. It doesn't tell you whether at some date in the future, the Social Security system will have enough in payroll taxes to pay benefits, or whether a huge allocation from general revenues must also be raised, nor how large that would be. It doesn't tell you whether the government has generated any savings whatsoever, or whether it sits on top of massive debt. In fact, when the Social Security program enters into cash deficits in the year 2015, from the standpoint of the economy and the taxpayer, the exact same thing happens when there is a large and positive Trust Fund as would happen if there were no Trust Fund at all—the government must turn to the private economy for additional money. All that the Trust Fund balance reveals is how much of a legal claim that one part of the government has upon resources to be provided by another part. Assuming that we intend to keep paying Social Security benefits regardless of the existence of such a legal claim, the insolvency date therefore provides little meaningful information.

Moreover, as the Congressional Budget Office points out in their latest analysis of the President's budget, the Trust Fund balance can simply be changed by fiat, without doing anything that would actually create new means to finance benefits. We could pass a law changing the interest rate paid on debt issued to the Social Security system, making it larger or smaller, and thereby moving the projected "insolvency date" further away or closer in. Or we could simply declare that additional credits from the general treasury will be transferred to the Social Security Trust Fund—as some in the current administration and out on the campaign trail have suggested—above and beyond whatever surplus revenues that Social Security has actually brought in. To sum it up, we can simply decide what the Trust Fund balance is going to be, and thus we can simply decide what the projected "insolvency date" is, without fixing anything.

For many years, the Social Security Trust Fund grew, even though none of that money was being saved in any sense whatsoever. The government was running on-budget deficits, unified budget deficits, indeed deficits by any measure. Yet we continued to account as though this were all adding to our ability to pay Social Security benefits. Today we are starting to make good on pledges to run a surplus both in Social Security accounts in on-budget accounts. Yet long before the government has generated any real net saving to back up the huge credits made to the Social Security Trust Fund, we hear proposals to make still more such credits, and to inflate the Trust Fund balance still further. This does a disservice to the principle of honest accounting, and to the taxpayers of this country. It is a consequence of our focusing narrowly on Trust Fund balances.

This is highly misleading. It is imperative that current law as well as all alternative reform proposals be evaluated for their impact on the overall federal budget, not simply the Social Security Trust Fund. Currently, CBO and OMB reports require Congress to look over the next 5 or 10 years at the operations of the federal government at a whole, and we plan for this accordingly. With Social Security, however, we look only at the Trust Fund balance over 75 years. We see the consequences of this in proposals to inflate the Trust Fund balance—the part of the equation we do see—at the expense of the part of the equation that we neglect—the on-budget accounts. This is not responsible budgeting. And we will not budget responsibly so long as the information that Congress receives is focused principally on one side of the ledger only.

Selective information and inadequate emphasis is never a good basis upon which to make policy. In the third part of my testimony, I will show specifically how the selective emphasis of information has distorted the Social Security reform discussion, and has in many ways paralyzed us out of meeting our responsibilities to the Social Security program.

Reporting to Program Participants On Contributions and Benefits

One of the more damaging misrepresentations about reform proposals is that they compare unfavorably to "current law." "Current law" promises benefits but does not provide the revenues to fund them long-term. Accordingly, any proposal to place the system on a stable course must, to a first approximation, relative to this unrealistic baseline, either cut benefits or raise revenues. Because every reform proposal is thus misdescribed as either raising taxes or cutting benefits, nothing, therefore, gets done, and the system inches closer to its day of reckoning.

One great frustration I have is that this is not even a factually accurate representation of "current law." The Social Security Administration does not have the authority to send out checks without financing. Thus, regardless of what current law promises in terms of benefits, the literal application of current law is that, once the date of insolvency is reached, the Social Security administration would delay sending out benefit checks, effectively reducing benefits on average to about 72% of current promises. Literally, "current law" means that we would begin to collect vastly increased general revenues from 2015 through 2037, and then that a sudden and precipitous series of effective benefit cuts would occur in 2037.

However, we continue to publicly describe "current law" as though, first, that the additional general revenue tax collections between 2015 and 2037 will not be required, and then that after 2037 the benefit checks would continue to be sent out without financing. Although none of us believe that Congress would actually permit a scenario of rapid tax hikes followed by drastic benefit cuts to take place, it is the literal application of what current law would require. Proposals to shore up the system should be evaluated on whether they promise a better future than these massive general revenue tax collections from 2015 through 2037, and better than the benefit cuts that would be required after 2037, rather than in comparison to a fantasy scenario that cannot occur in any event—the magic materialization of benefits without the collection of tax revenues to pay for them.

This is why the 1999 Technical Panel of the Social Security Advisory Board recommended that all representations of current law represent one of two possibilities—one that presumes either that we pay the benefits that current law can actually fund—which right now is only 72% of all promises after 2037—or that we raise taxes as is necessary to pay for all promised benefits. Somewhere in between those two endpoints is where reality might take us, but nowhere in that stream of possibilities is there any scenario that corresponds to what we currently tell the public will happen. Instead, they are sent misleading statements that tell them the benefits that they are promised, minus the information that the legal authority to pay them does not exist beyond 2037, and the funding does not exist beyond 2015. SSA's website makes the same mistake.

At all times and in all places, Mr. Chairman, statements of benefit and tax projections should be provided in a self-consistent manner. If, on Personal Earnings and Benefit Statements, we tell individuals that certain benefits will be paid, then we should also identify the changes in current revenue streams that will be required to pay those benefits, starting in 2015. If, on the other hand, we wish to assert that tax collections will not be increased, then we should inform people of the changes in their benefits that would occur consequent to that decisions. But at all times, in fairness to all approaches, every possible scenario should be credited for the retirement income that it can actually fund and provide—whether these are benefits provided from defined-contribution personal accounts or through a defined-benefit system —and only to the extent that it offers the financing to pay for it.

So, too, as with the first part of my statement, I believe that information sent out to Social Security beneficiaries should frankly acknowledge the literal application of current law, and explain to recipients what the Trust Fund does and does not mean, and its role as a debt owed by the US taxpayer, not an asset of the federal government. If we continue to wrongly imply to individual beneficiaries that benefits can rain out of the sky without additional revenues being committed in 2015, then we are committing an egregious public deception that will hamstring our ability to find fair solutions.

Implications of the Information Gaps Upon Legislative Proposals

As I indicated previously, this may be the most important section of my testimony because I intend here to show that these matters are not mere esoterica of concern only to policy experts, but have larger consequences for the political dynamic that in turn are damaging to the interests of wage-earners and beneficiaries alike.

It is my view that the shortcomings of our current information flow are proved by the way that the current Social Security debate has been distorted.

A first example: We know from current projections that projected payroll tax revenues will be insufficient to pay for Social Security benefits. But no one wants to raise the payroll tax. On the other hand, no one wishes to be seen as cutting Social Security benefits. In order to meet full current-law benefits, if we do not provide a portion of those benefits through personal accounts, then taxes would have to be raised. But since no one wants to admit to raising taxes, proposals to increase revenues to the system are made through the back door—through transfers from on-budget revenues. By transferring credits from general revenues, one requires that taxes must be increased in the future—in many such proposals, by tens of trillions of dollars—but one doesn't straightforwardly admit that this is what is being done.

It is easy to see how our current scoring creates this temptation. If we looked squarely at the entire effects of Social Security on the federal budget as a whole, it could clearly be seen that transfers from on-budget revenues have no positive economic effect. The analyses of GAO, CBO and others show this clearly. Future revenues, outlays, debt, and everything else looks exactly the same even after one assumes the implementation of such transfers.

But because we report annually on Social Security's finances by looking only at the Trust Fund balance, this creates the illusion that transfers would actually do some good. The Trust Fund balance is higher, the insolvency date is more distant, and the added costs on the general revenue side—burdens on future taxpayers—go unmeasured.

I am certain that these comments will be taken as implicitly critical of the President's proposal, and I admit that they are. However, it should in fairness be noted that his is not the only proposal that exploits this gap in our information flow; many others do. Every time that a proposal funds Social Security benefits from general revenues without taking an action to increase those general revenues by that amount (such as, for example, reforming the Consumer Price Index), it is playing this shell game. This is true whether general revenues are committed directly to fund a new benefit or whether they are simply used to reimburse the Trust Fund. And I think it is just as vital to say that every time an alleged expert says to the public that "there is no problem in Social Security before 2037," they too are exploiting this gap in the information flow.

Mr. Chairman, I believe it is absolutely critical that Congress begin to insist that all reporting concerning Social Security focus on all of the revenues that the program brings to the government, as well as all of the costs that it imposes on it. To look only at one side of the ledger, the Social Security Trust Fund balance, has clearly induced gamesmanship and will continue to do so. This does not serve the public well. It advantages only those who wish to gradually turn Social Security into a welfare program funded largely through income taxes, and works against the interest of those who wish to ensure, as Franklin Roosevelt wished, that there remains a defined relationship between every generation's tax contributions to the program, and the benefits that they receive from it.

This leads to my second example of how selective information has biased our evaluation process. From its inception, Social Security was designed to be a contributory system, distinct from welfare programs in that it was to be funded by dedicated taxes. If we bias our discussions in favor of proposals that funnel income taxes into the Social Security system, we would have no record of each person's presumed contributions to their Social Security benefits. Accordingly, in the future, Social Security would depart increasingly from any notion that benefits were related to contributions, and it would be nearly impossible to tell whether various generations and cohort groups were being treated fairly.

Currently, when we measure the fairness of the Social Security system, we track the rate of return that each birth cohort receives on their payroll taxes. But this becomes a meaningless exercise once the program begins to be funded significantly from income taxes, as on its current course it would. If we purported to solve this problem simply by transferring general revenues as was necessary to fund all future benefits, it would look as though everyone was getting a great deal from the system, even though they might be paying a tremendous amount in income taxes to support it. The reason for this is that we would continue to keep track of the benefits they receive, but only a portion—the payroll tax portion—of the tax burden that they were carrying.

So, Mr. Chairman, I believe it is vitally important, especially as we look outward at 2015, that we begin to tell the American public very frankly what is their individual share of the tax burden required to support the program, from income taxes as well as from payroll taxes. Under current projections, the average worker in the year 2030 would need to pay not only their 12.4% payroll tax, but also on average an additional 4.26% of their pay in income taxes, in order to pay full benefits to seniors in that year. That is a real burden on taxpayers at that time, and it is absolutely misleading to pretend that it does not exist.

Last year when this Committee held hearings on Social Security reform, an analysis was provided to the Committee on the eve of the hearing, that purported to show that reform proposals that contained personal accounts would produce an inferior "payback" on payroll taxes, relative to current law.

In reality, each of the proposals analyzed would have eliminated the majority of the mounting income tax burden that is now projected to occur in the year 2015–2037. However, by ignoring that $11.3 trillion in cost obligations, it can be made to appear as though current law has provided something for free that the other plans haven't, and thus its "payback" ratio is superior.

Everyone should remember, Mr. Chairman, that in order to understand this problem correctly, we have to recognize that different generations experience the Trust Fund in different ways. A worker paying a 12.4% payroll tax in 1990 didn't have to support a number of seniors whose benefits absorbed all of that 12.4%, so the balance of that money could be used to provide other government services to that taxpayer, or to reduce other federal borrowing and/or his income tax burden. But a worker paying a 12.4% payroll tax in 2025 will be responsible for supporting more seniors than that 12.4% can provide for, so he or she will have to make additional income tax payments to pay interest and principal to the Trust Fund from the general budget. Consequently, that wage-earner will either get less in government services, or face higher tax or debt service burdens. Unless one counts the costs to that taxpayer of paying off the Trust Fund, one receives a very misleading picture of how the system is working.

If we continue down the current road of pretending that the Trust Fund can magically finance benefits without anyone having to pay for those benefits, then the only result that we will reach, analytically, is that the only responsible course is simply to inflate the Trust Fund and to pretend that it produces those benefits for free. Economically and mathematically, of course, this is nonsense, but it is an inevitable result of the practice of looking only at Trust Fund transactions when analyzing the Social Security system.

We will never be able to make this system work fairly for all generations so long as we succumb to a view of things that looks only at part of the picture. It is therefore absolutely essential that all government materials frankly note the recent CBO and OMB findings that the Trust Fund in and of itself cannot finance benefits, and properly account for the payroll and income tax burdens borne by different generations as they move through different stages of the Social Security system.

Again, we see the results of this in the proposals that have begun to circulate this year. We see proposals to maintain or even expand upon existing benefit promises, and to "pay for them" simply by trying to make the projected cost increases appear as invisibly as possible. This is not a responsible way to make public policy, and future generations will rightly scorn these activities if we do not improve upon our information flow and thereby make our decisions with our eyes open.

Another, third example of how misunderstandings of Social Security's finances distort the public debate lies in the persistent notion that if the economy grows a little bit faster, if the Trustees' abandon "conservative" economic growth estimates, then our perceived problems will all vanish. Mr. Chairman, there is no basis for this view unless one simply chooses to look, again, selectively and narrowly at the Trust Fund balance.

In the first place, the Trustees are projecting a slow-down in workforce growth, not in per-capita productivity, reflecting a demographic reality, so it's open to question whether their estimates are "conservative" at all. But the real point is that no person who understands the inter-relationship between Social Security and the rest of the budget can take refuge in the idea that faster economic growth will solve Social Security's cost-problems. While it is possible in theory that economic growth could grow fast enough to eliminate the actuarial deficit over 75 years, the real-world problem of budgeting for increased Social Security costs is only affected at the margins by economic growth. For example, under the latest estimates, the cost of the program as a tax rate is projected to grow by 68% over the next thirty years, from 10.3% of the nation's taxable pay to 17.4%. Under the "good economy" estimate, this cost growth would be less by less than 1% of the nation's taxable pay, meaning that projected costs would still be well more than 50% greater than what they are now. Looking at the whole picture is essential if we are not to be seduced and deceived by false hopes that inaction can meet our responsibilities.

In sum, most “do nothing” proposals rely significantly on the presentation of only selective information. Only if there is full and accurate disclosure of all costs, revenues and benefits can the shortcomings of these prescriptions be seen.

Current Efforts to Improve Public Education

During consideration of the earnings limit legislation, I sought to offer a simple amendment to implement the recommendations of the 1999 Technical Panel on Assumptions and Methods with respect to the presentation of information about Social Security. It was not my intent, Mr. Chairman, to interfere with your desire, or the President’s desire, to have a clean earnings limit bill. However, given that this was likely the only substantive action to be taken by the Congress this year in the Social Security area, I thought it important to highlight at least the existence of the problems that remained unsolved, by directing additional “sunshine” upon Social Security’s financial operations.

We received a wide range of our responses to our amendment. Among watchdog groups whose main concern is long-range fiscal responsibility, we received tremendous support. The Concord Coalition, for example, supported our efforts helpfully. We also enjoyed the support of many who are committed to a fiscally responsible long-term solution for Social Security, including some who have not yet cosponsored reform plans.

To the extent that there were criticisms, as is often the case, these ranged from the constructive and valid to many based on mischaracterizations and misunderstandings. I will presume that you are already familiar with the language of our amendment, Mr. Chairman, and know that it would have obliged the Social Security Trustees to implement only the Technical Panel’s recommendations regarding the presentation of clear and relevant information, and only to the extent that the Trustees found advisable to do so. Since the amendment was withdrawn, and the Trustees’ report has been released, many have noted that the Trustees’ report does implicitly evaluate the Tech Panel’s recommendations regarding economic and demographic estimates, and incorporates small pieces of them. However, the technical assumptions were not the focus of our amendment, and although I have my own views about the technical issues, the extent of their incorporation into the Trustees’ report does not speak to our concerns. My chief aim is to see that the relevant information is provided to Congress within the framework of the Trustees’ assumptions—not with the assumptions themselves.

Many who supported our objectives sought to pass a clean earnings limit bill, including you, Mr. Chairman, and we withdrew our amendment in deference to that desire, upon receiving a commitment that our concerns would continue to be pursued in this Congress. I still believe that Congress would do well to pass legislation this year to improve reporting to both the public and to Congress regarding the true finances of the Social Security program. Doing so would be immeasurably helpful to the prospects for bipartisan cooperation in future years.

Mr. Chairman, despite the fact that you and I and many others have put forward Social Security reform proposals in this year of surpluses, it looks as though the likelihood of meaningful action is small prior to this November’s election. But I believe that we can still provide a useful service if we at least assure that Congress and the public receive the whole story, not just part of the story, of Social Security’s finances.

That means a frank accounting of the system’s entire costs and revenues—not just as seen through the narrow window of the Trust Fund. That means leveling with the public about what current law can actually fund. It means reconfiguring our public materials to honestly express what the Trust Fund is and what it isn’t. It means evaluating all proposals on a level playing field, one that recognizes all benefits and costs delivered under each scenario. If we continue to present only selective information to the public and to Congress, then we cannot expect that we will make the best decisions. We will benefit only those who seek to obscure the realities of the choices before us, and future taxpayers will be left with the costs that would arise as a consequence of our inattention.

I applaud your leadership in holding this hearing, Mr. Chairman, and I thank you again for the opportunity to submit this testimony.

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